

TAB A

Expert Report of Paul A. Marcus

September 19, 2007





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Introduction

1. I have been retained by Fried, Frank, Harris, Shriver & Jacobson LLP, counsel for Magten Asset Management Corporation ("Magten") on behalf of both Magten and Law Debenture Trust Company of New York to analyze and assess the impact of misstatements and omissions in NorthWestern Corporation's ("NorthWestern" or "Company") financial statements and public disclosures during 2002 on NorthWestern's invested capital and the availability of additional capital.
2. I have prepared this report to set forth the opinions I may express at the trial of this matter and reserve the right to supplement this report based upon information that may become available subsequent to the date of this report. When I testify at trial, I may illustrate my testimony with demonstrative aids such as graphs, charts and/or slides.
3. My opinions are based upon an independent examination of the evidence provided by the parties in this case and my knowledge and professional experience. I express all opinions to a reasonable degree of professional certainty.
4. The general categories of information that I have reviewed during the course of my analysis to assist in formulating my opinion include:
 - Case related documents in the Magten Asset Management Corporation & Law Debenture Trust Company of New York v. NorthWestern Corporation litigation including but not limited to:
 - Case complaint
 - Depositions and related exhibits
 - Board meeting minutes
 - Presentations to rating agencies
 - Bear Stearns presentations to NorthWestern
 - Management Financial and Information Reports
 - E-mails
 - Company memos
 - Company financial projections
 - NorthWestern's Securities and Exchange Commission ("SEC") filings and press releases
 - SEC complaints and proceedings involving NorthWestern and its former management



- Equity research for NorthWestern and the utility industry
 - Rating agency press releases and reports
 - Credit facility agreements
 - Other research related to NorthWestern and the utility industry
5. I have also relied on the analyses and findings of Robert Berliner in his Expert Report dated September 19, 2002 related to NorthWestern's violations of U.S. generally accepted accounting principles ("GAAP") and SEC disclosure regulations and the impact of those violations on NorthWestern's financial statements and financial covenants.
6. A complete list of documents I considered to formulate my opinions in this matter is provided in Exhibit 1.

Qualifications

7. I am a professional with over twenty years of experience in corporate finance, mergers and acquisitions, valuation, financial analysis, and advising on complex financial transactions. I hold an M.B.A. from the University of Chicago and a B.S. from Tufts University. I also hold the Chartered Financial Analyst designation granted by the CFA Institute and successfully completed a formal credit training program at Bank of America.
8. As a practitioner, I have substantial experience in performing financial analysis related to providing capital to companies as well as advising them on financing strategy. In my roles at Bank of America, Shawmut Bank and Marlborough Capital Advisors, I was responsible for recommending investment of senior debt, subordinated debt, and equity in excess of a billion dollars. As an investment banker, I assisted companies in determining the appropriate capital structure and financing plans to achieve their goals and advised them in transactions which raised funds from equity and debt sources including but not limited to: the public equity markets, private equity and mezzanine funds, insurance companies, finance companies, commercial banks (cash flow and asset-based loans), factors, and others. These investments covered a wide variety of



industries including electric utilities, gas utilities, gas pipelines, independent power producers, and others.

9. As a consultant, I have provided consulting and expert services to numerous attorneys and companies on matters of valuation, damages, lost profits, corporate finance, solvency, business modeling, bankruptcy, and mergers and acquisitions. I have also served as a financial analyst and consultant to numerous companies on mergers and acquisitions, valuation of debt and equity securities, business valuation, leveraged buyouts, private placement of debt and equity, and debt restructuring.
10. In addition, I have testified in federal court and have made presentations on financing strategies, exit strategies for business owners, and understanding financial statements to business groups and law firms. I have designed and taught classes on the determination and calculation of damages as part of Huron's formal training activities.
11. A detailed description of my qualifications and expert testimony during the last four years is provided in Exhibit 2.

Compensation

12. Huron charges an hourly rate of \$505 for my time in conducting the research and analysis supporting my opinion and for any testimony I may give. I have supervised others at Huron who also have worked on this project; their hourly rate varies based on their experience level. Neither Huron's fees nor my compensation are contingent on my findings or on the outcome of this litigation.

Summary of Opinions

13. My opinions in this matter are:
 - I. The misstatements and omissions in NorthWestern's financial statements, Registration Statement in connection with the \$720 million in bonds, and other public disclosures during 2002 enabled the Company to complete the October 2002 \$87 million equity offering and the transfer of the NorthWestern Energy L.L.C. assets to NorthWestern in November 2002. Had the true information been disclosed to the public prior to October



8 and November 15, 2002, respectively, the equity offering would not have occurred and the asset transfer would have been impeded by the attempts of security holders and regulators to protect their respective investments and constituents because:

- The market's knowledge that NorthWestern would never realize a return on or cash flow from its significant investment (including preferred stock and intercompany advances) in its unregulated subsidiaries, Blue Dot and Expanets, would have been accelerated.
- The precipitous drop in NorthWestern's stock price would have been accelerated.
- The downgrading of NorthWestern's credit to below investment grade would have been accelerated.
- NorthWestern would have defaulted on financial covenants related to its \$280 million facility for which Credit Suisse First Boston ("CSFB") was the administrative agent.¹
- CSFB would likely not have funded the \$280 million facility.
- The suspension of NorthWestern's dividend would have been accelerated.
- The \$390 million debt financing with CSFB would have been unlikely.

In each case above, material information, much of which was the focal point of analyses performed by security analysts, rating agencies and investors, was known and withheld from the market place by the management of NorthWestern. The effect of withholding such information was that the Company continued to have access to the financial markets based on public filings, disclosures, and statements that were false and/or which had omitted material information. In reality, this scheme to withhold information allowed the Company to execute the above mentioned transactions.

With knowledge of the undisclosed information, particularly with respect to Expanets and Blue Dot, the market would have readily recognized that NorthWestern was in serious financial trouble. As it was, the Company had progressed through 2002 with a financing plan that was limited and below expectations. As NorthWestern's management was aware, had the true information been known, the Company's ability

¹ Depending on context, CSFB refers to itself and other members of the bank group.



to continue to finance its operations by raising money in the capital markets would have been severely limited or eliminated altogether. In addition, both security holders and regulators would have acted to protect their interest in NorthWestern Energy, L.L.C. from being transferred to NorthWestern.

- II. Had the assets of NorthWestern Energy, L.L.C. not been transferred to NorthWestern, the QUIPS investors would have been covered by the former's assets and not junior to the debt and other liabilities of NorthWestern Corp.
- III. Assuming Clark Fork remained liable for the QUIPS obligations; Clark Fork would not have had the financial ability to meet those obligations.

Background

Overview

- 14. In November 1996,² Montana Power Company ("Montana Power") issued, via a trust, 8.45% Cumulative Quarterly Income Preferred Securities, Series A (the "QUIPS") due in 2036.³ The offering included 2.6 million units with a liquidation preference value of \$25 each, for a total of \$65 million.⁴
- 15. On February 15, 2002, NorthWestern acquired Montana Power, which provides electric and natural gas transmission and distribution in Montana, for \$478 million in cash and the assumption of \$511 million in debt and preferred securities,⁵ augmenting similar services NorthWestern provides in South Dakota and Nebraska. Montana Power changed its name to NorthWestern Energy, L.L.C. at the time of the acquisition; however, it remained a wholly owned subsidiary of NorthWestern.⁶

² Complaint to Avoid the Transfer of Assets of Clark Fork and Blackfoot LLC (f/k/a NorthWestern Energy LLC) to NorthWestern Corporation, April 2004, p. 4.

³ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, F-52.

⁴ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, F-52.

⁵ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 5.

⁶ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 5.



16. At the time of the acquisition, the market generally reacted favorably to the transaction, although equity analysts did express concern about the high leverage that would result based on NorthWestern's financing plan.⁷
17. Consistent with repeated statements by management to rating agencies and others,⁸ substantially all of the assets and the majority of the liabilities of the former Montana Power (aka NorthWestern Energy L.L.C.) were transferred to NorthWestern on November 15, 2002.⁹ In December 2002, NorthWestern announced significant reductions in earnings due to lower than expected performance at Blue Dot and Expanets, as well as the need to increase reserves for accounts receivable and billing adjustments at Expanets, and the likelihood of a significant impairment charge.¹⁰ In April 2003, through its restated quarterly financial statements for 2002 NorthWestern reported worse financial information.¹¹ NorthWestern filed for bankruptcy in September 2003.¹²

NorthWestern financing, public announcements and other events

18. NorthWestern undertook several financing activities in 2002. Many of these activities as well as other announcements and events pertinent to NorthWestern's invested capital are listed below:

Date	Event
January 14, 2002	CSFB provided financing for the acquisition in the form of \$720 million in term loans. ¹³ In the same credit agreement, CSFB also provided NorthWestern \$280 million in revolving credit loans. ¹⁴ Under the credit agreement, the expiration date of the revolving credit facility was

⁷ A.G. Edwards, NorthWestern Corporation, Will Investor Attention on Accounting Issues Result in Lower Share Price? We Think Yes, March 19, 2002 (NOR101965-66). Merrill Lynch, NorthWestern Corporation, Transformation Underway, But Execution Risk Remains High, May 1, 2002 (NOR101990-92). A.G. Edwards, Equity Research – Electric Utilities, Montana Commission Approves Acquisition of MPT T&D Business, January 29, 2002 (NOR101960-62).

⁸ NorthWestern Corporation, Transcript from First Quarter 2002 Earnings conference call, April 30, 2002, p. 54 (NOR379816). NorthWestern Corporation, Rating Agency Presentation, October 16, 2001 (CSFB015656).

⁹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 5.

¹⁰ Press Release: NorthWestern Lowers Guidance For Estimated 2002 Results, December 13, 2002.

¹¹ NorthWestern Form 10-Q/A for the period March 31, 2002 filed April 15, 2003. NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003. NorthWestern Form 10-Q/A for the period September 30, 2002 filed April 15, 2003.

¹² Press Release: NorthWestern Corporation Files for Reorganization, September 15, 2003.

¹³ NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), p. 1.

¹⁴ NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), p. 1.



Date	Event
March 13, 2002	<p>February 14, 2003. NorthWestern would be able to convert up to \$225 million of aggregate outstanding into a one year term loan.¹⁵</p> <p>NorthWestern issued \$720 million senior unsecured notes to retire the CSFB \$720 million term loan used to acquire Montana Power.¹⁶ These bonds were initially rated BBB+ by Fitch Ratings ("Fitch") and Baa2 by Moody's Investor Service ("Moody's").¹⁷ The notes were not registered at the time of sale.</p>
August 8, 2002	NorthWestern reaffirmed its \$2.30 to \$2.55 earnings per share ("EPS") target. ¹⁸
September 20, 2002	NorthWestern amended the first and second quarter 2002 10-Q filings addressing concerns raised by the SEC regarding necessary disclosures which were not included in the original filings. ¹⁹ Among these disclosures were intercompany advances from NorthWestern to Expanets of \$113.4 million and to Blue Dot of \$22.8 million as of June 30, 2002 ²⁰ and additional discussion of NorthWestern's practice of allocating losses to the minority interests resulting from the acquisitions made by Expanets and Blue Dot as well as quantification of those losses. ²¹
October 8, 2002	NorthWestern raised \$87 million (\$81 million net proceeds) in a common stock offering of 10,000,000 shares ²² at an issue price of \$8.75. ²³
October 22, 2002	NorthWestern completed the exchange of its previously issued \$720 million unregistered notes for notes which were registered under the Securities Act of 1933. ²⁴
November 7, 2002	NorthWestern announced that, due to lower projections and the October equity offering, it was reducing forecasted earnings per share from \$2.30 to \$1.50-\$1.60. ²⁵
November 15, 2002	Substantially all of the assets and a majority of the liabilities in the wholly owned subsidiary NorthWestern Energy L.L.C., except for the Milltown

¹⁵ NorthWestern Corp. Form 424B2 filed October 3, 2002, S-6.

¹⁶ NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 13 (MD&A), p. 17.

¹⁷ Fitch press release: NorthWestern Corp's \$720MM Sr Notes Rated 'BBB+' By Fitch Ratings, March 8, 2002. Moody's press release: Moody's Assigns Baa2 Rating to NorthWestern Corporation's Planned \$700 Million Note Offering, March 5, 2002.

¹⁸ Press Release: NorthWestern Corporation Reports Second Quarter 2002 EPS Of 49 Cents From Continuing Operations; Operating Income Reaches \$83.5 Million, August 8, 2002.

¹⁹ Letter from Paul Hastings to the Securities and Exchange Commission, July 12, 2002 (NOR080418-59). Letter from Paul Hastings to the Securities and Exchange Commission, August 16, 2002 (NOR080471-97). Letter from Paul Hastings to the Securities and Exchange Commission, September 6, 2002 (NOR080498-505).

²⁰ NorthWestern Form 10-Q/A for the period March 31, 2002 filed September 20, 2002, p. 34.

²¹ NorthWestern Form 10-Q/A for the period March 31, 2002 filed September 20, 2002, pp. 6-7.

²² NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, F-51.

²³ NorthWestern Form 8-K for the period October 2, 2002 filed October 8, 2002, Exhibit 1.1, Sch. B-1.

²⁴ Press Release: NorthWestern Corporation Successfully Completes Exchange Offer For 7-7/8% Notes Due 2007 and 8-3/4% Notes Due 2012, October 22, 2002.

²⁵ Press Release: NorthWestern Reports Third Quarter 2002 Earnings Of 25 Cents Per Share From Continuing Operations, November 7, 2002.



Date	Event
	Dam, were transferred to NorthWestern ²⁶ in a transaction referred to as "going flat." The entity that retained the Milltown Dam was subsequently renamed Clark Fork and Blackfoot L.L.C. ("Clark Fork"). ²⁷
December 13, 2002	NorthWestern announced that it would miss its 2002 earnings estimates announced on November 7, 2002 due to increased reserves at Expanets and performance issues at Expanets and Blue Dot. ²⁸ It also disclosed that it "may recognize a substantial impairment of goodwill and other intangible assets" at Expanets and Blue Dot. ²⁹
December 18, 2002	CSFB and NorthWestern entered into a \$390 million senior secured term loan credit facility with a term of at least four years. ³⁰ The loan was secured by First Mortgage Bonds (\$280 million of which were secured by substantially all of NorthWestern's Montana utility assets and \$110 million were secured by the remaining availability of NorthWestern's South Dakota and Nebraska utility assets). ³¹
December 20, 2002	Moody's downgraded NorthWestern's senior unsecured debt and issuer ratings from Baa2 to Ba1, ³² a rating that is below investment grade or junk.
December 30, 2002	Standard & Poor's ("S&P") downgraded NorthWestern's corporate credit from BBB+ to BB+, ³³ a rating that is below investment grade.
January 16, 2003	Fitch downgraded NorthWestern senior unsecured debt from BBB to BB+, ³⁴ a rating that is below investment grade.
January 27, 2003	The Montana Public Service Commission ("MPSC") approved issuance of First Mortgage Bonds to secure the \$390 million loan. ³⁵
February 10, 2003	The \$390 million loan closed. ³⁶ NorthWestern repaid the \$280 million revolver. ³⁷
February 19, 2003	NorthWestern announced that the common stock dividend would be suspended to pay down debt and that it expected to report

²⁶ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, pp. 5, 106, F-8.

²⁷ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 17.

²⁸ Press Release: NorthWestern Lowers Guidance For Estimated 2002 Results, December 13, 2002.

²⁹ Press Release: NorthWestern Lowers Guidance For Estimated 2002 Results, December 13, 2002.

³⁰ Press Release: NorthWestern Enters Into \$390 Million Secured Credit Facility, December 18, 2002.

³¹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. F-29.

³² Moody's Investor Services, Global Credit Research Rating Action, Moody's Downgrades Ratings of NorthWestern Corporation (Sr. Sec. To Baa3); Continues to Review Ratings for Possible Further Downgrade, December 20, 2002.

³³ Standard & Poor's Research Update NorthWestern Corp., December 30, 2002.

³⁴ Fitch press release: NorthWestern Downgraded By Fitch Ratings; Rating Outlook Negative, January 16, 2003 (NOR035384). Fitch Ratings, Corporate Finance, NorthWestern Corporation, February 6, 2003 (NOR058336).

³⁵ Department of Public Service Regulation before the Public Service Commission of the State of Montana, In the Matter of the Application of NorthWestern Corporation for Authority to Consummate a Credit Agreement and Issue \$390 Million in Principal Amount of Secured Long-Term Notes in the Form of First Mortgage Bonds, Final Order, January 27, 2003 (NOR001606-17).

³⁶ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 6.

³⁷ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 6.



Date	Event
April 15, 2003	approximately \$700 million in charges in its 2002 results. ³⁸ NorthWestern filed its 2002 10-K and restated the first three quarters of 2002. It reported it would no longer be paying cash dividends for the foreseeable future. ³⁹
September 15, 2003	NorthWestern announced it filed for Chapter 11 bankruptcy and would be delisted from the New York Stock Exchange. ⁴⁰

NorthWestern management knowledge

19. Based on my review of Mr. Berliner's report as well as many of the documents which underlie his statements, there is considerable evidence during 2002 that Company management was aware of several material items that a reasonable investor would need to know to make an informed investment decision. Many of these were concealed by the incorrect financial statements that the Company filed in the first three quarters of 2002 including but not limited to the reserves and other issues at Expanets, the likelihood of an impairment of Expanets and Blue Dot, and the difficulties related to monetizing certain assets, including the transmission assets at Colstrip. I highlight these issues below.

20. The SEC also addressed these items:

NorthWestern also misrepresented or did not disclose, among other things, the effects of significant problems with Expanets' new information technology system, the material impact of Expanets' reserve reductions and its receipt of non-compete payments on Expanets' income, large intercompany advances NorthWestern made to support Expanets and Blue Dot, and the timing of anticipated payments from the sale of certain utility assets. Through its financial misstatements, misrepresentations and omissions, NorthWestern obscured the continuing poor performance of its subsidiaries at a time when it was publicly relying on these subsidiaries' operations to strengthen its financial condition.⁴¹

³⁸ Press Release: NorthWestern Corporation Outlines Turnaround Plan Company Will Focus on Core Utility Business, Improving Liquidity and Paying Down Debt Common Stock Dividend Suspended Company Projects Charges of Approximately \$700 Million in 2002, February 19, 2003.

³⁹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 81.

⁴⁰ Press Release: NorthWestern Corporation Files for Reorganization, September 15, 2003.

⁴¹ Securities and Exchange Commission, Order Instituting Cease-and-Desist Proceedings, Making Findings and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934, March 7, 2007, p. 2.



21. Management of NorthWestern was aware throughout 2002 that Expanets' earnings were not being reported accurately.⁴² NorthWestern management was, as an example, directing Expanets to meet its EBITDA targets by reducing its reserves for bad debt expense and billing adjustments.⁴³ These were among the very items which were later restated.
22. On September 18, 2002, a presentation was made to NorthWestern revealing that of Expanets' accounts receivables, \$52 million was over 180 days old and \$21 million was over 300 days old.⁴⁴ NorthWestern management instructed, however, that the proper reserves for these outstanding amounts not be made.⁴⁵ The SEC noted that though the uncollectible accounts receivable issue was not disclosed in NorthWestern's 10-Q filings for the first or second quarters of 2002, it was disclosed in the third quarter, but the SEC stated, "this disclosure was inadequate since NorthWestern knew at that time that Expanets' bad debt reserve was materially insufficient."⁴⁶
23. In his timeline, Richard Fresia, CFO of Expanets,⁴⁷ stated, "[i]n the July [2002] Operations review meeting, I advised the NOR senior team that billing adjustments for the year 'may be as high as \$30M'".⁴⁸ However, as also noted by the SEC, though it was aware of the need to increase the billing adjustment reserve at Expanets, NorthWestern management actually reduced the reserve in the second and third quarters of 2002 to increase income in those quarters.⁴⁹
24. Additionally, though NorthWestern management was clearly aware of the amount of its intercompany advances to Expanets and Blue Dot, they were not disclosed in NorthWestern's original 10-Q filings for the first or second quarters of 2002. This was

⁴² Declaration to Paul Hastings Janofsky & Walker LLP by Kipp Orme, April 2003 (NOR519889-90).

⁴³ Declaration to Paul Hastings Janofsky & Walker LLP by John Charters, April 11, 2003 (NOR519910-12).

⁴⁴ Expanets Collections Strategy Discussion Presentation, September 18, 2002 (NOR306807).

⁴⁵ Declaration to Paul Hastings Janofsky & Walker LLP by Richard Fresia, April 18, 2003 (NOR519917-18).

⁴⁶ Securities and Exchange Commission, Order Instituting Cease-and-Desist Proceedings, Making Findings and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934, March 7, 2007, p. 5.

⁴⁷ Deposition of Richard Fresia, April 30, 2007, pp. 7-8.

⁴⁸ Fresia Exhibit 13, Timeline of key events (ultimately) leading to 12/31/02 reserve (NOR306791-92). E-mail from Rick Fresia to Marty Snella RE: Gap in reported revenue for July dated August 6, 2002 (NOR306793).

⁴⁹ Securities and Exchange Commission, Order Instituting Cease-and-Desist Proceedings, Making Findings and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934, March 7, 2007, p. 6.



significant as by June 30, 2002, NorthWestern had approximately \$113.4 million in intercompany advances, increasing nearly 100% during the quarter from the March 31, 2002 balance of \$63.3 million,⁵⁰ in addition to the disclosed \$51.4 million of additional indebtedness to Expanets and \$22.8 million in intercompany advances to Blue Dot.⁵¹ The intercompany advances were included in the first 10-Q/A filed on September 20, 2002.⁵² By September 30, 2002, the intercompany advances to Expanets totaled \$191.2 million.⁵³

25. Internal documents also reflect that NorthWestern management understood a substantial impairment of Expanets and Blue Dot was likely during 2002, however, NorthWestern did not disclose the amount of the impairment until April 15, 2003 in connection with the filing of its annual 10-K. One of the reasons this information was withheld was to enable NorthWestern to finalize its new financing and to avoid a covenant violation on its \$280 million CSFB facility as the following implies.

...the Board should determine its financing plan as soon as practicable, preferably by the week of December 9. The combination of underperformance, increasing of reserves, and potential SFAS 142 impairments at the unregulated businesses not only potentially jeopardize NorthWestern's ability to term-out its existing credit facility in February should there be any problem in executing the FMB [first mortgage bond] financing, but also could potentially result in an earlier covenant breach following completion of the company's SFAS 142 impairment analysis and final sign off by Deloitte (likely to occur in mid to late January or early February).⁵⁴

26. Regarding the monetization of assets, NorthWestern, knowing the market was concerned about its liquidity, stated that it expected to collect \$97 million in Colstrip proceeds in June or July 2002.⁵⁵ As late as August 8, 2002, NorthWestern told

⁵⁰ NorthWestern Form 10-Q/A for the period March 31, 2002 filed September 20, 2002, p. 34.

⁵¹ NorthWestern Form 10-Q/A for the period June 30, 2002 filed September 20, 2002, p. 45.

⁵² NorthWestern Form 10-Q/A for the period June 30, 2002 filed September 20, 2002, p. 45.

⁵³ NorthWestern Form 10-Q for the period September 30, 2002 filed November 14, 2002, p. 44.

⁵⁴ Memo from M. Lewis and D. Hylland to the Board of Directors Re: NOR Financing Status and Recommendations, December 7, 2002 (NOR063739).

⁵⁵ United States District Court, District of South Dakota, Southern Division, Securities and Exchange Commission, Plaintiff, v. Richard R. Hylland, Defendant, Complaint, April 25, 2007, p. 26.



analysts, “[w]e do intend to close on that transaction within the next couple months and that would bring in \$97 million in proceeds.”⁵⁶

27. However, NorthWestern did not disclose that its receipt of those proceeds was uncertain and that it initiated a lawsuit against the potential purchaser of the Colstrip assets.⁵⁷ On August 5, 2002, NorthWestern filed a complaint against the other party and served the complaint on September 4, 2002, disclosing the lawsuit at that time.⁵⁸ With the lawsuit, the ultimate completion of the transaction would be perceived by the market as more difficult.

General market conditions

28. As a result of the rampant economic disturbances in 2001, including the Enron scandal and the September 11 terrorist attacks, 2002 began with weak and uncertain financial markets. The manifestation of which was generally referred to as a “flight to quality”⁵⁹ due to market participants heightened risk aversion. Investors and creditors were particularly weary of companies with “questionable accounting practices” and highly leveraged balance sheets.⁶⁰ Companies with these characteristics generally experienced declining stock prices and higher interest costs,⁶¹ as well as increasing pressure to reduce their debt.⁶²
29. Utility companies were not isolated from the inhospitable financial markets. The industry faced poor fundamentals due to an increasing power supply and subsequently lower prices leading to continued reductions in earnings.⁶³ In the first quarter of 2002,

⁵⁶ NorthWestern Corporation’s Second Quarter Earnings Release conference call transcript, August 8, 2002, p. 26 (NOR099958).

⁵⁷ United States District Court, District of South Dakota, Southern Division, Securities and Exchange Commission, Plaintiff, v. Richard R. Hylland, Defendant, Complaint, April 25, 2007, p. 26. Press Release: NorthWestern and PPL Montana Reach Agreement in Principle to Settle Litigation Claims, May 4, 2005.

⁵⁸ United States District Court, District of South Dakota, Southern Division, Securities and Exchange Commission, Plaintiff, v. Richard R. Hylland, Defendant, Complaint, April 25, 2007, pp. 26-27.

⁵⁹ International Monetary Fund, Global Financial Stability Report Market Developments and Issues, June 2002, p. 9.

⁶⁰ International Monetary Fund, Global Financial Stability Report Market Developments and Issues, June 2002, p. 2.

⁶¹ International Monetary Fund, Global Financial Stability Report Market Developments and Issues, June 2002, p. 2.

⁶² International Monetary Fund, Global Financial Stability Report Market Developments and Issues, June 2002, p. 12.

⁶³ I note that for the most part, the regulated businesses of NorthWestern, including the Montana utility operations, were not subject to these pricing impacts. Deutsche Bank Electric Power Monthly, April 2, 2002. Bear Stearns Utility Review, August 9, 2002. Salomon Smith Barney Industry Note Utilities, October 8, 2002.



U.S. electric power distribution companies' earnings were 21% lower on average than the first quarter of 2001.⁶⁴

30. The pervasiveness of weak balance sheets and corresponding liquidity issues as well caused ratings agencies to view utilities with additional scrutiny and more proactively adjust the ratings of weaker companies.⁶⁵ The ratings agencies' influence on the financial markets was expanding during this period and their criticisms led to a "negative bias" for the entire utility industry.⁶⁶ According to Salomon Smith Barney, debt for the industry was trading at significant discounts "reflecting strong investor concerns".⁶⁷ The equity market, adopting this concern, was highly focused on the outstanding debt levels of utility companies. Many analysts were recommending underweighting electric utilities in investment portfolios during 2002.⁶⁸
31. The financing situation for utilities firms was so dire by mid-October 2002 that one analyst deemed the capital markets "essentially closed to these companies, with equity financing unavailable and future debt refinancings likely occurring only on a secured basis and at unattractive terms. In fact, debt ratings and credit spreads already reflect the erosion of investor confidence in these companies' financial condition".⁶⁹
32. Another analyst summarized the situation as follows:

Little did we know that the big splash created by Enron's demise last year would escalate into a tidal wave by mid-2002. That wave has eroded investors' confidence in energy markets, drying up much needed capital prompting the cancellation or postponement of most power plant development projects and essentially halting power energy trading activities. Increased cost of capital combined with declining near-term profit margins resulted in significant EPS erosion in 2002. The wave was swift, unforeseen and the loss of capital significant.⁷⁰

⁶⁴ Deutsche Bank Securities Inc., U.S. Electric Power Review Industry Quarter Earnings Review, May 13, 2002.

⁶⁵ Baird, Utility Monthly, September 2002, p. 2.

⁶⁶ Bear Stearns, Utility Review, June 4, 2002.

⁶⁷ Salomon Smith Barney, Multi-Company Note, Electric Utilities, October 18, 2002.

⁶⁸ Bear Stearns, Monthly Utility Review, October 18, 2002. Salomon Smith Barney, Multi-Company Note, Electric Utilities, October 18, 2002. Salomon Smith Barney, Electric Utilities Weekly Energy Wire, November 26, 2002. Deutsche Bank, U.S. Electric Power Industry, August 12, 2002. Deutsche Bank, U.S. Electric Power Industry, October 4, 2002. Deutsche Bank, U.S. Electric Power Monthly, October 7, 2002. Deutsche Bank, U.S. Electric Power Monthly, December 6, 2002.

⁶⁹ Salomon Smith Barney, Multi-Company Note, Electric Utilities, October 18, 2002, p. 2.

⁷⁰ Baird, Utility Monthly, September 2002, p. 2.



33. As shown in Exhibit 3, both the S&P and Dow Jones utility indices underperformed the broader market in 2002. This chart also shows that NorthWestern's stock price lagged behind the industry for the majority of the year and substantially so in the latter half. From the time of the acquisition of Montana Power on February 15, 2002 to December 12, 2002, just before its announcement that it would miss its November 2002 revised earnings target, NorthWestern's stock price dropped approximately 65% (from \$21.60 to \$7.61) to a 15-year low, while the utilities indices dropped less than 30% during the same period.⁷¹ Over the next two months, NorthWestern's stock fell another 66% to \$2.60 on February 19, 2003 when NorthWestern announced it would be suspending its dividend payment.⁷²

Equity analyst view of NorthWestern prior to restatement

34. Based on information released by NorthWestern, filings with the SEC and calls with equity analysts prior to November 2002, analysts at a number of investment banking firms generally believed that the Company was on target to meet its 2002 earnings estimate of \$2.30 per share, even recommending that investors purchase NorthWestern's stock in the first half of 2002.⁷³ The equity analysts' optimism stemmed from the stability of NorthWestern's regulated utility business and the consistency of NorthWestern's dividend,⁷⁴ as well as their beliefs that NorthWestern would achieve "EBITDA of \$330-\$355 million and a year-end free cash flow run rate of \$100 million"⁷⁵ for 2002 and strengthen its liquidity position through the issuance of equity and the sale of its Colstrip-related transmission assets.⁷⁶

⁷¹ Bloomberg stock quote data

⁷² Press Release: NorthWestern Corporation Outlines Turnaround Plan Company Will Focus on Core Utility Business, Improving Liquidity and Paying Down Debt Common Stock Dividend Suspended Company Projects Charges of Approximately \$700 Million in 2002, February 19, 2003.

⁷³ UBS Warburg, Global Equity Research, NorthWestern Corp., April 30, 2002. Merrill Lynch, NorthWestern Corporation, May 1, 2002 (NOR101990). Merrill Lynch, NorthWestern Corporation, May 17, 2002 (NOR101994). Merrill Lynch, NorthWestern Corporation, June 25, 2002 (NOR053471). Merrill Lynch, NorthWestern Corporation, August 9, 2002 (NOR234617). Merrill Lynch, NorthWestern Corporation, August 19, 2002 (NOR026460). Morgan Stanley, NorthWestern Corp., May 17, 2002 (NOR053430).

⁷⁴ Morgan Stanley, NorthWestern Corp., April 25, 2002 (NOR053319-28). Merrill Lynch, NorthWestern Corporation, August 9, 2002 (NOR234617-20).

⁷⁵ UBS Warburg, Global Equity Research, NorthWestern Corp, July 18, 2002.

⁷⁶ UBS Warburg, Global Equity Research, NorthWestern Corp, July 18, 2002. Merrill Lynch, NorthWestern Corporation, August 9, 2002 (NOR234617-20).



35. These expectations proved to be wrong when NorthWestern announced on November 7, 2002, that it was lowering its 2002 earnings forecast to \$1.50-\$1.60 per share as a result of lowered EBITDA projections for Expanets and Blue Dot and adjustments related to the additional common shares from the October 2002 offering.⁷⁷
36. Prior to this announcement, analysts had expressed concerns about the unregulated subsidiaries. However, these concerns were abated by the Company's release of information on the "dramatic transformation"⁷⁸ at Expanets and its "EBITDA level of \$80 to \$87 million"⁷⁹ for 2002 as well as the "improvement for the second half of [2002]"⁸⁰ at Blue Dot, with EBITDA targets of \$15 to \$20 million.⁸¹ The Company also told analysts in August 2002 that "[d]uring the balance of the year when you look at the projections, they will certainly be paying their dividends in cash and, in fact, we would look for payments in excess of the actual dividends so we can start working back down to preferred stock investment. Blue Dot, during the balance of the year we would see them having an ability to pay roughly half of their dividends in cash."⁸²
37. HSBC reported its understanding of the situation as follows:
- Cash flows to the parent from its non-regulated subsidiaries are expected to improve during [the second half of 2002]: \$20mn dividends from Expanets are expected to be in cash, and half of Blue Dot's \$20mn dividend in [the second half] will be in cash. Also, Expanets may begin to return capital to parent NOR though redemption of preferred stock.⁸³
38. Additionally, the analysts generally believed based on management representations that the accounts receivable (collectability) issues Expanets had experienced due to the implementation of a new enterprise software system, Expert,⁸⁴ would "be reduced

⁷⁷ Press Release: NorthWestern Reports Third Quarter 2002 Earnings Of 25 Cents Per Share From Continuing Operations, November 7, 2002.

⁷⁸ NorthWestern Corporation's Second Quarter Earnings Release conference call transcript, August 8, 2002, p. 4 (NOR099936).

⁷⁹ NorthWestern Corporation's Second Quarter Earnings Release conference call transcript, August 8, 2002, p. 17 (NOR099949).

⁸⁰ NorthWestern Corporation's Second Quarter Earnings Release conference call transcript, August 8, 2002, p. 5 (NOR099937).

⁸¹ NorthWestern Corporation's Second Quarter Earnings Release conference call transcript, August 8, 2002, p. 21 (NOR099953).

⁸² NorthWestern Corporation's Second Quarter Earnings Release conference call transcript, August 8, 2002, p. 35 (NOR099967).

⁸³ HSBC, NorthWestern Corporation, 2Q Results Imply Solid Year-End Outlook, August 13, 2002.

⁸⁴ NorthWestern Form 10-Q/A for the period March 31, 2002 filed September 20, 2002, p. 21.



to normal levels".⁸⁵ Merrill Lynch reported in May 2002 that "[t]he significant cost expense associated with putting in a new back office is now finally paying off..."⁸⁶ As late as September 20 in its amended 10-Q for the first quarter, NorthWestern reported that "[t]he [Expert] system is now fully operational and savings are expected to continue throughout 2002."⁸⁷

39. The analysts also believed that "...the problem units/regions [of Blue Dot] have been identified and the company is implementing a management restructuring."⁸⁸
40. As discussed above, equity analysts during 2002 were acutely aware of highly leveraged capital structures, and NorthWestern's liquidity constraints, which were exacerbated by the debt incurred for the Montana Power acquisition, were therefore troubling to the market. Bear Stearns, NorthWestern's own financial advisor, addressed this situation in a September presentation to NorthWestern's Board of Directors: "NorthWestern's stock price performance has suffered as the equity markets have grown concerned about the Company's debt ratios and the lack of flexibility within NorthWestern's capital structure."⁸⁹ A handwritten note on a page of the presentation describes the consequences to NorthWestern resulting from this lack of flexibility - "slippage in EBITDA would be catastrophic".⁹⁰
41. Notwithstanding NorthWestern's precarious financial position (which later would be proven to be much worse), NorthWestern issued 10,000,000 shares of common stock at \$8.75 per share, with net proceeds of \$81 million on October 8, 2002, a mere 40% of the initially planned \$200 million offering. This financing did little to allay concerns about the Company's ability to reduce debt or improve its financial flexibility and in hindsight only served to postpone the inevitable bankruptcy filing that occurred later in 2003.

Despite a very difficult financing environment, the Company was able to successfully complete its 10 million share offering, raising net proceeds of \$82.5 MM... The issue price of \$8.75 was somewhat disappointing to the

⁸⁵ UBS Warburg, Global Equity Research, NorthWestern Corp., May 20, 2002.

⁸⁶ Merrill Lynch, NorthWestern Corporation, May 1, 2002, p. 2 (NOR101991).

⁸⁷ NorthWestern Form 10-Q/A for the period March 31, 2002 filed September 20, 2002, p. 21.

⁸⁸ Morgan Stanley, NorthWestern Corp., New, More Regulated Look, Attractive Valuation, April 25, 2002 (NOR053320).

⁸⁹ Bear Stearns Presentation to NorthWestern Corporation, September 12, 2002, p. 3 (NOR349346).

⁹⁰ Bear Stearns Presentation to NorthWestern Corporation, September 12, 2002, p. 8 (NOR349354).



market, both in terms of dilution and the signals being sent about share price levels... The Company's trading levels (2003 P/E around 3.8x and 15+% dividend yields) suggest that the market continues to have questions about both liquidity and NorthWestern's long-term strategy.⁹¹

42. The concerns expressed above as well as similar comments made by other analysts obviously could not reflect the Company's true situation due to the more optimistic false information consistently provided by management to the market at this time.
43. Indeed, in July 2002 prior to the October stock offering, the equity markets were questioning the prudence of the transaction before any knowledge of the financial restatements that would later take place as described in the following: "The company has previously indicated that it plans to issue approximately \$200 million in new equity to strengthen its balance sheet. We believe that, in the current market environment, the risks and potential dilution for this type of transaction have increased."⁹² NorthWestern's own financial advisor, Bear Stearns, warned that because of the stock price discount to the market,⁹³ the equity offering could be "highly dilutive,"⁹⁴ and as a result, Bear Stearns stated that all of its financing alternatives which did not include issuance of common equity would ultimately "provide significantly more value to shareholders".⁹⁵
44. Following NorthWestern's November 2002 announcement of the decreased earning estimate described above and a subsequent December 2002 announcement stating that it would miss the \$1.50-\$1.60 per share estimate from November and would be recording substantial charges at year end, certain equity analysts commented that a change to NorthWestern's dividend policy including a suspension of the dividend, which had been consistent for many years, was likely.⁹⁶ They also expressed concern that the unregulated subsidiaries, which they had believed to be improving, would

⁹¹ Bear Stearns Presentation to NorthWestern Corporation, November 6, 2002, p. 1 (NOR054686).

⁹² UBS Warburg, Global Equity Research, NorthWestern Corp., July 18, 2002, p. 2.

⁹³ Bear Stearns Presentation to NorthWestern Corporation, September 12, 2002, p. 24 (NOR349374).

⁹⁴ Bear Stearns Presentation to NorthWestern Corporation, September 27, 2002, p. 6 (NOR255876).

⁹⁵ Bear Stearns Presentation to NorthWestern Corporation, September 23, 2002, p. 3 (NOR057819).

⁹⁶ Morgan Stanley, NorthWestern Corp., Unreg Expected to Fall Short; Lowering Estimates, November 11, 2002 (NOR026678). RBC Capital Markets, NorthWestern Corp., Aggressive Growth Strategy Creates Problems, February 18, 2003.



require additional capital, diverting funds from the debt repayment they had been expecting.⁹⁷

45. In response to the announcement, a Morgan Stanley analyst noted its loss of trust in NorthWestern's management causing it to preemptively assume a full write-down prior to the actual disclosure in April 2003: "We are lowering our ongoing EPS estimate to \$1.00 on management's guidance that the non-utility subsidiaries, principally telecom, has deteriorated even more than previously admitted. For practical purposes, we would consider these subsidiaries likely to be completely written off and unlikely to contribute to parent cash flow or EPS."⁹⁸ Still, the analyst could not predict the ultimate loss of \$30.04 per diluted share for 2002.⁹⁹
46. By February 2003, many analysts had stopped coverage of NorthWestern. One that continued coverage wrote the following:
 - "In addition to the above problems, we believe that certain management actions have had a negative impact on investor confidence in NorthWestern and its management team. These actions include: Providing positive earnings guidance throughout most of 2002 and issuing an earnings warning shortly after the completion of the company's equity issuance in October 2002..."¹⁰⁰
 - "... the company has encumbered all of its utility assets in order to secure the new \$390 million senior secured term loan credit facility and the new facility has restrictions on additional indebtedness. Given NorthWestern's current stock price, its debt leverage and encumbrances, it may be difficult to raise capital at a reasonable cost. ...NorthWestern's ability to access capital could also be negatively impacted by recent downgrades in its debt ratings by Standard and Poor's, Moody's and Fitch to below investment grade."¹⁰¹
 - "The Company's current ratings are as follows: Standard and Poor's, BB+; Moody's, Ba1; and Fitch, BB+. If NorthWestern continues to maintain its annual dividend at \$1.27, the forecast dividend payout ratios for 2003 and 2004 are in excess of 100%. We believe this situation is not sustainable over the long run and believe there is a high probability that the dividend will be cut or eliminated in light of the February 6,

⁹⁷ Morgan Stanley, NorthWestern Corp., Unreg Expected to Fall Short; Lowering Estimates, November 11, 2002 (NOR026678).

⁹⁸ Morgan Stanley, NorthWestern Corp., Lowering Ests. On Guidance – A Real Workout Story Now, December 16, 2002 (NOR035357).

⁹⁹ Press Release: NorthWestern Corporation Reports 2002 Financial Results, Company Reports Loss of \$892.9 Million for Full-Year 2002, April 16, 2003.

¹⁰⁰ RBC Capital Markets, NorthWestern Corporation, Pessimism Overhangs Stock, February 18, 2003, p. 4.

¹⁰¹ RBC Capital Markets, NorthWestern Corporation, Pessimism Overhangs Stock, February 18, 2003, p. 23.



2003 announcement that NorthWestern's board of directors deferred a decision on the Company's common stock dividend."¹⁰²

- "We believe that a number of factors have had and could continue to have a negative impact on investor confidence in NorthWestern and its management team. These factors include the sharp decline in Company's share price in recent months; the pending bankruptcy of CornerStone; continued operational difficulties at Expanets and Blue Dot; substantial indebtedness associated with the NorthWestern's business acquisitions; and concerns over executive compensation, accounting practices and consulting fees."¹⁰³

Rating agency view of NorthWestern prior to restatement

47. Until December 2002, all of the Company's debt maintained investment grade ratings. Exhibit 4 includes a summary of the changes in the ratings on NorthWestern's senior secured, senior unsecured, senior notes, first mortgage bonds, and issuer ratings from 2000 through NorthWestern's bankruptcy in 2003.
48. As discussed below, the agencies viewed the planned equity offering and transfer of assets from Montana Power to NorthWestern as necessary to maintain the Company's investment grade ratings. However, the ratings agencies were focused on several items including NorthWestern's tight liquidity, its increased debt level leading to a highly leveraged capital structure, and volatility at the unregulated subsidiaries. Additionally, if the equity offering or the asset transfer were not completed, the agencies indicated that NorthWestern's ratings would be impacted.
49. By the end of 2001, NorthWestern's liquidity issues were of significant concern to the rating agencies. In November 2001, Moody's stated that it was "concerned about NorthWestern's significant increase in recourse debt and debt-like obligations that will be taken on as a result of the acquisition of MPC's utility assets."¹⁰⁴ Following through on the concerns both Moody's and S&P downgraded NorthWestern's credit in late 2001. Moody's reasoning for this downgrade included NorthWestern's increasing debt leverage and a weak cash flow coverage.¹⁰⁵

¹⁰² RBC Capital Markets, NorthWestern Corporation, Pessimism Overhangs Stock, February 18, 2003, p. 2.

¹⁰³ RBC Capital Markets, NorthWestern Corporation, Pessimism Overhangs Stock, February 18, 2003, p. 2.

¹⁰⁴ E-mail from C. Thomson to J. Finch and D. Welch Re: Moody's Press Release, November 20, 2001 (CSFB010284-85).

¹⁰⁵ E-mail from C. Thomson to J. Finch and D. Welch Re: Moody's Press Release, November 20, 2001 (CSFB010284).



50. In addition to the liquidity issues caused by NorthWestern's leveraged capital structure, after the Montana Power acquisition, the ratings were also negatively impacted by the performance of Expanets and Blue Dot.¹⁰⁶ NorthWestern acknowledged this concern stating "[the rating agencies] will at least be very pleased to see the turnaround at Expanets, which was a major concern of theirs."¹⁰⁷ The rating agencies recognized that the relatively stable cash flows from NorthWestern's utility business¹⁰⁸ offset some of the risks identified by the ratings agencies with respect to the Company's unregulated subsidiaries. The regulated business, unlike Expanets and Blue Dot, benefited from "low industrial sales, profitable off-system energy sales, low power costs, reasonable regulation, adequate generating capacity, and supply contracts".¹⁰⁹ However, the positive benefits of the stable utility cash flow could not overcome the substantial negative financial performance that, though hidden by the misstatements and omissions by management and thus not apparent to the agencies at the time, was occurring at Expanets and Blue Dot.
51. In fact, in a September 12, 2002 presentation to NorthWestern's Board of Directors, Bear Stearns points out in a sensitivity analysis that "[a] 50% reduction in Expanets projected cash flow would critically impair the Company's balance sheet."¹¹⁰ At the time, NorthWestern management had not disclosed that Expanets' cash flows were negative necessitating \$113.4 million in intercompany advances through June 30, 2002 from NorthWestern.¹¹¹
52. Due to the rating agencies' focus on NorthWestern's liquidity and leverage, the continuation of its investment grade ratings were predicated on an anticipated \$200 million equity offering as described below:

The expectation of another material, near term common equity issuance as part of the take-out financing is an important factor in Moody's rating determinations. Furthermore, the rating determinations assume that

¹⁰⁶ Moody's Investor Services, Global Credit Research Rating Action, Moody's Assigns Baa2 Rating to NorthWestern Corporation's Planned \$700 million Note Offering, March 5, 2002.

¹⁰⁷ Jacobsen Exhibit 7, Memo from K. Orme to M. Lewis, D. Hylland and E. Jacobsen Re: Financing Plans and Considerations, May 28, 2002 (NOR056240).

¹⁰⁸ Moody's Investor Services, Fundamental Credit Research Opinion Update, NorthWestern Corp., December 6, 2001 (CSFB009055).

¹⁰⁹ Standard & Poor's Research, NorthWestern Corp., December 26, 2001 (CSFB009049).

¹¹⁰ Bear Stearns Presentation to NorthWestern Corporation, September 12, 2002 (NOR349356).

¹¹¹ NorthWestern Form 10-Q/A for the period June 30, 2002 filed September 20, 2002, p. 45.



management will continue to carefully manage NW's capital structure and issue additional common equity, if necessary, to achieve more financial flexibility.¹¹²

53. The equity analysts as well acknowledged this fact: "While we believe \$200mm in total equity is still in the works to maintain a solid BBB credit rating, equity financing remains a challenge at current levels. But equity is a must, and we effectively see NOR coming to the market in smaller trenches, and to potentially both the public and private equity markets."¹¹³
54. Therefore, the shortfall in the October offering led to another round of ratings downgrades.¹¹⁴ As S&P explained, "NorthWestern was expected to issue \$200 million of additional equity to support the company's financial measures, but was only able to issue \$83 million due to the substantial decline in the company's stock price that continues to persist."¹¹⁵ These market reactions took place based on the information available at the time, which did not yet incorporate the additional negative information that would soon be revealed.
55. Another factor keeping NorthWestern's ratings higher was the expectation that the Montana utility assets would be transferred to NorthWestern,¹¹⁶ because that "structure favors NOR bondholders as they will not be structurally subordinated to outstanding MPC [Montana Power] debt obligations."¹¹⁷ If that did not occur, the agencies had warned the ratings would be impacted: "In the unlikely event that the collapsing of Montana Power L.L.C. into a division of NOR does not occur as planned, then Moody's would reassess the need to account for a structural subordination relating to NOR's obligations. Under this scenario, a one-notch downgrade of NOR's ratings would be a likely outcome, all other factors being equal."¹¹⁸ In fact, appeasing the rating agencies

¹¹² E-mail from C. Thomson to J. Finch and D. Welch, Re: Moody's Press Release, November 20, 2001 (CSFB010284-86).

¹¹³ Merrill Lynch, NorthWestern Corp., Focusing on Cash, August 9, 2002 (NOR250196).

¹¹⁴ Fitch press release: Fitch Dwngr NorthWestern Corp Sr Sec To 'BBB+'; Outlook Negative, October 14, 2002.

¹¹⁵ Standard & Poor's Research Update, NorthWestern Corp., December 30, 2002, p. 2.

¹¹⁶ Fitch press release: Fitch Dwngr NorthWestern Corp Sr Sec To 'BBB+'; Outlook Negative, October 14, 2002.

¹¹⁷ Fitch press release: NorthWestern Corp's \$720MM Sr Notes Rated 'BBB+' By Fitch Ratings, March 8, 2002.

¹¹⁸ Moody's Investor Services, Global Credit Research Rating Action, Moody's Assigns Baa2 Rating to NorthWestern Corporation's Planned \$700 million Note Offering, March 5, 2002.



was specifically identified as a reason for the Board of Directors to approve the board resolution to transfer the assets and liabilities.¹¹⁹

56. Less than a month after the asset transfer, NorthWestern announced that it would miss its earnings estimate due to lower than expected performance at Blue Dot and Expanets as well as the need to increase reserves, and the likelihood of a significant impairment charge.¹²⁰ Based on this December 2002 announcement, ratings for all but NorthWestern's senior secured debt and first mortgage bonds were dropped to junk status.¹²¹ Even at this point, however, the announcement understated the problems of which NorthWestern management was aware.
57. In commentary surrounding its December 20, 2002 downgrade, Moody's noted "that absent access to the funds under the new CSFB facility -- which would facilitate termination of the existing \$280 million facility -- the recent [December 13] announcement related to expected non-cash charges could jeopardize NOR's ability to remain in compliance with some of the financial covenants in that facility (e.g.; the funded debt to capital ratio as defined within the loan document)."¹²² Had accurate financials been available, NorthWestern would have already been in default.
58. S&P additionally predicted in December 2002 that "given the company's current stock price of half its book value [\$5.10 on December 30, 2002], and general equity market conditions, Standard & Poor's does not believe the company will issue addition[al] equity in the foreseeable future... Standard & Poor's also remains concerned about the company's ability to issue equity over the next four to five years."¹²³

Financial restatement on April 15, 2003

59. On April 15, 2003, NorthWestern issued its annual form 10-K filing as well as amended 10-Q filings for the first three quarters of 2002 (this was the second time the quarterly 2002 10-Q filings were amended). There were a number of adjustments in the

¹¹⁹ NorthWestern Corporation, Board of Directors Minutes of Regular Meeting, August 7, 2002 (NOR009571).

¹²⁰ Press Release: NorthWestern Lowers Guidance For Estimated 2002 Results, December 13, 2002.

¹²¹ See Exhibit 4.

¹²² Moody's Investor Services, Global Credit Research Rating Action, Moody's Downgrades Ratings of NorthWestern Corporation (Sr. Sec. To Baa3); Continues to Review Ratings for Possible Further Downgrade, December 20, 2002 (NOR099653).

¹²³ Standard & Poor's Research Update, NorthWestern Corp., December 30, 2002.



quarterly restated filings including but not limited to: (1) reduction in revenue and accounts receivables related to estimated billing adjustments, (2) increase in bad debt expense and accounts receivable reserves, (3) decrease in revenues based on the completed contract method of accounting, (4) increase in expenses related to Expanet's new enterprise software system, Expert, that were originally capitalized, and (5) increase in expenses related to an employee benefit plan.¹²⁴ Also, in the fourth quarter of 2002, NorthWestern recorded a large impairment of goodwill and other long-lived assets in recognition of the severe problems that NorthWestern was experiencing at Blue Dot and Expanets.¹²⁵

60. The following table (in millions) lists the significant charges from the 2002 10-K¹²⁶:

Impairment of Blue Dot goodwill and other long-lived assets	\$	301.7
Impairment of Expanets goodwill and other long-lived assets		288.7
Discontinued operations of CornerStone Propane, net of tax benefits		101.7
Valuation allowance for deferred tax assets		71.5
Expanets billing adjustments and accounts receivable write-offs and reserves		65.8
Impairment of Montana First Megawatts project		35.7
Retirement of acquisition term loan, net of tax benefits		13.4
	<u>\$</u>	<u>878.5</u>

61. The following table (dollars in millions) contains a comparison of high level financial metrics as originally reported for the first three quarters to the restated values as well as fourth quarter financials (see Exhibit 5 for details).

	1st Qtr 2002		2nd Qtr 2002		3rd Qtr 2002		4th Qtr 2002
	Original	Restated	Original	Restated	Original	Restated	Original
Net Income	\$ (29.5)	\$ (46.1)	\$ 15.8	\$ (13.9)	\$ (41.3)	\$ (55.4)	\$ (748.6)
EBITDA	\$ 62.3	\$ 38.2	\$ 81.1	\$ 49.7	\$ 77.7	\$ 55.6	\$ (645.2)
Equity	\$ 357.4	\$ 340.8	\$ 357.3	\$ 311.0	\$ 298.9	\$ 238.6	\$ (456.1)

62. As summarized by the SEC in its Cease and Desist order, "NorthWestern overstated its income from continuing operations for the first three quarters of 2002 by approximately 176%, 618%, and 109%, respectively due to the company's improper

¹²⁴ NorthWestern Form 10-Q/A for the period March 31, 2002 filed April 15, 2003, p. 3. NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003, pp. 4-5.

¹²⁵ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 6.

¹²⁶ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 6.



accounting for accounts receivable, adjustments to customers' bills, and allocation of losses to minority interests."¹²⁷

63. NorthWestern stated in its 10-K that "[i]t has become increasingly apparent that we will never recover our investments in these entities and that these entities will not generate cash flows in sufficient amounts to provide meaningful contributions to our debt service."¹²⁸ This acknowledgement appears to be a significant departure from the \$86 to \$96 million of EBITDA, that the Company was predicting for Expanets and Blue Dot as late as November 6, 2002.¹²⁹ As discussed above, internal correspondence in addition to other Company documents make it apparent that NorthWestern management knew about the problems at Expanets and Blue Dot before November 2002.
64. As the SEC stated in its complaint against Richard Hylland, president and Chief Operating Officer of NorthWestern,¹³⁰

Hylland and other NorthWestern senior executives were informed that neither entity was providing meaningful cash to NorthWestern, that NorthWestern was actually required to fund these operations more than originally planned, and that NorthWestern failed to properly disclose this information. ...Hylland and other NorthWestern senior executives were also informed about the effect these advances had on NorthWestern's financial condition, including their likely impact to its liquidity, and that such information was material to the public, including analysts and rating agencies.¹³¹

65. Given the insufficient information regarding NorthWestern's financial difficulties that NorthWestern had previously disclosed to the public, the market reaction following the April 15, 2003 financial disclosure was rapid and punishing. Within days, all three major rating agencies had dropped the Company's senior secured debt rating to junk

¹²⁷ Securities and Exchange Commission, Order Instituting Cease-and-Desist Proceedings, Making Findings and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934, March 7, 2007, p. 2.

¹²⁸ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 6.

¹²⁹ Press Release: NorthWestern Reports Third Quarter 2002 Earnings Of 25 Cents Per Share From Continuing Operations, November 7, 2002.

¹³⁰ Deposition of Richard Hylland, May 2, 2007, p. 8.

¹³¹ United States District Court, District of South Dakota, Southern Division, Securities and Exchange Commission, Plaintiff, v. Richard R. Hylland, Defendant, Complaint, April 25, 2007, pp. 22-23.



status.¹³² In downgrading the bond ratings, the rating agencies made the following comments regarding NorthWestern's prospects:

- "The rating action is the culmination of the continued problems associated with the company's Expanets Inc. and Blue Dot Inc. subsidiaries, resulting in an \$890 million write-off and also resulting in anemic funds from operation interest coverage ratios for the next several years...Even though NorthWestern intends to divest or dispose of its noncore assets, Standard & Poor's is also concerned about management's ability to execute this plan in a timely manner. Funds from operations in the fourth quarter were significantly lower than management had previously forecasted."¹³³
- "The restatement of 2002 audited financial results and impairment charges on Bluedot and Expanets demonstrates the inability of these businesses to generate positive cash flow. Even though the charges are largely a non-cash event, the \$890 million of impairment charges completely eliminated the equity layer of the consolidated corporation and mean that the company will never recover the recorded goodwill and its investment. The impairment charge further implies a sale of the assets will probably not generate significant cash."¹³⁴
- "The company's liquidity is tight primarily because of its seriously constrained financial flexibility. The company has no access to the public equity market; the only other means of generating cash is an expected sale for \$97 million of the Colstrip transmission assets, which are currently in litigation with PPL Corp., and the sale of the Montana First Megawatt..."¹³⁵
- "In addition to our expectation that funds from operations will continue to be meager in relation to total debt, Moody's does not see a likelihood of substantial reduction of the company's heavy debt burden in the near term, either by the sale of nonutility assets or through the issuance of equity. This view considers that nonutility assets have exhibited very poor returns... The company's leveraged balance sheet and weak cash flow coverage of fixed charges, which we expect to be below 2x for 2003, leaves investors without any visible cushion for further unexpected adverse events."¹³⁶
- "Given the magnitude of the year-end 2002 asset writedowns and the disclosure of operational deficiencies at Expanets, Fitch believes that it will be less likely that NOR will generate material net cash proceeds from the sale of its non-regulated investments. Although the performance of NOR's electric and gas utility division

¹³² See Exhibit 4.

¹³³ Standard & Poor's press release: NorthWestern Corp. Rating Lowered, Still on CreditWatch Negative, April 21, 2003 (NOR034685-86).

¹³⁴ Standard & Poor's Research Update, NorthWestern Corp. May 23, 2003, p. 2.

¹³⁵ Standard & Poor's press release: Northwestern Preferred Stock Rating Lowered to 'C', Still on Watch Neg, May 23, 2003 (NOR034841).

¹³⁶ Moody's Investor Services, Global Credit Research Rating Action, Moody's Downgrades Ratings of NorthWestern Corporation (Sr. Sec. To B2); Rating Outlook is Negative, April 25, 2003.



should remain stable, consolidated credit protection measures will remain extremely weak for the foreseeable future absent meaningful reduction in NOR's debt load."¹³⁷

- "The funding of a \$390 million secured term loan in February 2003 has stabilized NOR's near-term liquidity position... However, the amount of asset protection available to senior unsecured bondholders has been meaningfully reduced as a result of the new secured facility. NOR's utility division fixed assets currently carry a book value of approximately \$1.7 billion. Total first mortgage bonds currently issued approximate \$860 million thus leaving potential residual utility asset value available for senior unsecured creditors of about \$750 million versus year-end 2002 unsecured debt outstanding of approximately \$1 billion."¹³⁸

66. Finally, while most equity analysts had tellingly stopped covering the Company, one that still provided coverage reported:

As expected, NorthWestern reported significant losses for 2002. Excluding the impact of unusual items, we arrive at a loss of \$2.70 per share in 2002. We expect continued losses over our forecast period. Based on our financial forecast, we have concerns over the viability of NorthWestern as a going concern. Specifically, we believe that cash generated from the utility business may not be sufficient to cover interest costs, preferred securities obligations and maintenance capital expenditures.¹³⁹

Financial restatement per Accounting Expert

67. In addition to the adjustments reported in the restated quarterly filings, Mr. Berliner has analyzed the accounting records and the SEC filings and made additional adjustments. A summary of these adjusted financial statements is attached as Exhibit 6. I have used on the adjustments made by Mr. Berliner in performing certain analyses which support my opinion.
68. The analysis of Mr. Berliner indicates that \$390 million of the impairment charge that was ultimately taken in the fourth quarter of 2002 (reported on April 15, 2003 in the Company's 10-K) should have been taken as of June 30, 2002.¹⁴⁰

¹³⁷ Fitch press release: Fitch Ratings Lowers NorthWestern's Senior Unsec To 'B+'; Rating Outlook Negative, April 23, 2003.

¹³⁸ Fitch press release: Fitch Ratings Lowers NorthWestern's Senior Unsec To 'B+'; Rating Outlook Negative, April 23, 2003.

¹³⁹ RBC Capital Markets Research Comment, NorthWestern Corporation, Review of Annual Report Raises Concerns Over Viability of a Company as A, April 17, 2003.

¹⁴⁰ See Exhibit 6.



69. I have also used Mr. Berliner's calculation of the financial covenants related to the CSFB \$280 million revolver. His calculations show that NorthWestern's net worth was \$289.1 million as of June 30, 2002 and \$198.9 million as of September 30, 2002.¹⁴¹ As the credit agreement states that NorthWestern must have net worth of \$350 million at a minimum,¹⁴² NorthWestern would have been in violation of this covenant as of these dates. Mr. Berliner also calculated the funded debt to total capital ratio which equaled 83.5% as of June 30, 2002 and 85.1% as of September 30, 2002.¹⁴³ NorthWestern would have then also been in violation of the funded debt to total capital covenant as of these dates as the ratio must not exceed 72%.¹⁴⁴

¹⁴¹ Expert Report of Robert W. Berliner, CPA, CFE, September 19, 2007, Attachments A-1 and A-2 to the Basis for Opinion 4.

¹⁴² NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), p. 63.

¹⁴³ Expert Report of Robert W. Berliner, CPA, CFE, September 19, 2007, Attachments A-3 and A-4 to the Basis for Opinion 4.

¹⁴⁴ NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002, Exhibit 10.1, Amendment No. 2 to Credit Agreement, p. 1.



Statement of Opinions

70. My opinions in this matter are:

I. The misstatements and omissions in NorthWestern's financial statements, Registration Statement in connection with the \$720 million in bonds, and other public disclosures during 2002 enabled the Company to complete the October 2002 \$87 million equity offering and the transfer of the NorthWestern Energy L.L.C. assets to NorthWestern in November 2002. Had the true information been disclosed to the public prior to October 8 and November 15, 2002, respectively, the equity offering would not have occurred and the asset transfer would have been impeded by the attempts of security holders and regulators to protect their respective investments and constituents because:

- **The market's knowledge that NorthWestern would never realize a return on or cash flow from its significant investment (including preferred stock and intercompany advances) in its unregulated subsidiaries, Blue Dot and Expanets, would have been accelerated.**
- **The precipitous drop in NorthWestern's stock price would have been accelerated.**
- **The downgrading of NorthWestern's credit to below investment grade would have been accelerated.**
- **NorthWestern would have defaulted on financial covenants related to its \$280 million facility for which Credit Suisse First Boston ("CSFB") was the administrative agent.¹⁴⁵**
- **CSFB would likely not have funded the \$280 million facility.**
- **The suspension of NorthWestern's dividend would have been accelerated.**
- **The \$390 million debt financing with CSFB would have been unlikely.**

71. Even prior to the ultimate announcement of the Company's true problems, NorthWestern was aware of the difficulties and negative financial impact of issuing the upwards of \$200 million of equity that the credit rating agencies and regulators were expecting,¹⁴⁶ its bond ratings were continually being reviewed for downgrades,¹⁴⁷ and

¹⁴⁵ Depending on context, CSFB refers to itself and other members of the bank group.

¹⁴⁶ Bear Stearns Presentation to NorthWestern Corporation Board of Directors, September 27, 2002, p. 6 (NOR255876). Moody's Investor Services, Global Credit Research Rating Action, Moody's Assigns Baa2 Rating to NorthWestern Corporation's Planned \$700 million Note Offering, March 5, 2002. Moody's Press Release: Moody's Places Credit Ratings of NorthWestern Corporation and its Subsidiary NorthWestern Energy, L.L.C. Under Review for Possible Downgrade (Sr. Sec. At Baa1), August 1, 2002 (NOR076208). Standard and Poor's Press Release: NorthWestern Corp.'s Corporate Credit Rating Lowered to 'BB+'; Outlook Remains Negative, December 30, 2002 (NOR058328-32).



its liquidity was drying up.¹⁴⁸ As the true or previously concealed information was revealed over time, NorthWestern was forced to cut its cash dividend payments, saw its stock price plummet, lost its investment grade rating and ultimately declared bankruptcy. Had the information about the Company's problems, which were eventually made known to the marketplace (during press releases and financial disclosures from September 20, 2002 through April 15, 2003) been properly disclosed prior to November 15, 2002, a similar pattern of events, albeit at an earlier point in time, should be expected.

72. As discussed above, if the financial markets had access to accurate financial statements for the first three quarters of 2002 and if they had known that the Company would incur a significant write-off due to the impairment of Expanets and Blue Dot in June 2002 and that the approximately \$140 million of EBITDA¹⁴⁹ that those subsidiaries were predicting for 2003 would be well below expectations causing the Company's expected future cash flow to be greatly reduced, the following would have been the immediate impacts:
 - a) The rating agencies would have likely downgraded the Company's debt during the first quarter of 2002 and in subsequent quarters. It is also likely that in reaction to the second quarter results, the ratings agencies at minimum would have downgraded NorthWestern's unsecured debt to below investment grade.
 - b) The Company's stock price would have fallen each quarter based on the significantly more pessimistic view of the Company's future prospects.

¹⁴⁷ Moody's Investor Services, Global Credit Research Rating Action, Moody's Downgrades Ratings of NorthWestern Corporation (Sr. Sec. To Baa3); Continues to Review Ratings for Possible Further Downgrade, December 20, 2002. Email from C. Thomson to J. Finch and D. Welch Re: Moody's Press Release, November 20, 2001 (CSFB010284-85). Fitch press release: NorthWestern Corp's \$720MM Sr Notes Rated 'BBB+' By Fitch Ratings, March 8, 2002. Moody's Press Release: Moody's Places Credit Ratings of NorthWestern Corporation and its Subsidiary NorthWestern Energy, L.L.C. Under Review for Possible Downgrade (Sr. Sec. At Baa1), August 1, 2002 (NOR076208).

¹⁴⁸ Jacobsen Exhibit 7, Memo from K. Orme to M. Lewis, D. Hylland and E. Jacobsen Re: Financing Plans and Considerations, May 28, 2002 (NOR056238).

¹⁴⁹ Bear Stearns Presentation to NorthWestern Corporation, September 20, 2002, p. 3 (NOR057789). NorthWestern Corporation's Second Quarter Earnings Release conference call transcript, August 8, 2002, p. 15 (NOR099947).



c) The Company would have breached the \$350 million minimum net worth covenant and exceeded the funded debt to total capital covenant of 72% under its \$280 million CSFB credit agreement¹⁵⁰ during the second and third quarters of 2002.¹⁵¹

73. As a result of these initial reactions to the release of accurate and truthful financial information, NorthWestern's prospects would have continued to diminish as its financial difficulties, in particular a shortage of cash, would have ultimately led to continued downgrades of its debt, no access to the conventional capital markets for debt or equity financing and the elimination of the Company's dividend. With all of the events occurring somewhat simultaneously in the capital markets (i.e., the release of negatively revised operation performance, ratings downgrades, dropping stock price, need to write-off Expanets and Blue Dot, and debt covenant defaults), the Company's overall financial profile would have been so bad that it would have been unlikely that it could have found a sizable enough source of capital to prevent the eventual bankruptcy filing that actually occurred.

74. Below, I have attempted to discuss each of the relevant factors, beginning with the three listed above, which would have contributed to NorthWestern's precarious financial position prior to November 15, 2002 had all the relevant information been disclosed. While I address them independently, they are frequently interrelated.

Ratings downgrade

75. Though the credit ratings for NorthWestern and its secured and unsecured debt were investment grade throughout 2002, a comparison of NorthWestern's financial ratios similar to ratios utilized by S&P to rate utility companies demonstrates that NorthWestern's ratios were indicative of a company with generally lower credit quality. Several mitigating conditions were relied upon by the rating agency to support the higher quality ratings including but not limited to: (1) the planned \$200 million equity

¹⁵⁰ NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002, Exhibit 10.1, Amendment No. 2 to Credit Agreement, p. 1.

¹⁵¹ Expert Report of Robert W. Berliner, CPA, CFE, September 19, 2007, Attachments A-1, A-2, A-3, and A-4 to the Basis for Opinion 4.



offering, (2) the transfer of NorthWestern Energy, L.L.C.'s assets to the parent level, and (3) a significant turnaround in the performance of the unregulated subsidiaries.¹⁵²

76. As shown in Exhibit 7, using NorthWestern's restated financials (both Company restated as well as the revised restatements calculated by Mr. Berliner), the above mentioned financial ratios would have firmly indicated a below investment grade credit rating for NorthWestern beginning as early as the first quarter of 2002. To make this determination, I compared the credit ratings indicated by the ratios that NorthWestern would have had throughout 2002 if the true financials had been available to a selection of key utility financial ratios that were defined by S&P in its 2002 Corporate Ratings Criteria report.¹⁵³ The results of this comparison combined with the elimination of the above mentioned mitigating factors due to the appropriate disclosures, would have likely caused the Company's corporate and unsecured debt ratings, and its secured debt rating shortly thereafter, to drop to below investment grade.
77. Throughout this period, NorthWestern management understood both the importance of its credit ratings to its ability to obtain debt and equity financing and of its reported income (and the future prospects that are inferred by the reported income) to the determination of those ratings by the agencies. Specifically, as will be discussed, a below investment grade rating would have greatly impaired its ability to issue equity, pay quarterly cash dividends, and draw funds under the \$280 million revolver, as well as significantly increased its interest expense.

NorthWestern stock price drop

78. Based on my review of available analyst coverage of NorthWestern, a number of issues were identified as contributing to the market's analysis of NorthWestern's future prospects and ultimately its stock price. These factors include but are not limited to

¹⁵² Moody's Investor Services, Global Credit Research Rating Action, Moody's Assigns Baa2 Rating to NorthWestern Corporation's Planned \$700 million Note Offering, March 5, 2002. Moody's Press Release: Moody's Places Credit Ratings of NorthWestern Corporation and its Subsidiary NorthWestern Energy, L.L.C. Under Review for Possible Downgrade (Sr. Sec. At Baa1), August 1, 2002 (NOR076208). Standard and Poor's Press Release: NorthWestern Corp.'s Corporate Credit Rating Lowered to 'BB+'; Outlook Remains Negative, December 30, 2002 (NOR058328-32). Fitch press release: Fitch Dwngr NorthWestern Corp Sr Sec To 'BBB+'; Outlook Negative, October 14, 2002. E-mail from C. Thomson to J. Finch and D. Welch Re: Moody's Press Release, November 20, 2001 (CSFB010284-85).

¹⁵³ S&P 2002 Corporate Ratings Criteria report, pp. 54-55.



leverage, liquidity, operating performance of its utility and unregulated subsidiaries, and the ability to pay dividends.

79. The following events are excerpted from the table in the Background section with the closing stock price on the day of the various actual events indicated. All else being equal, I would expect that a similar trend in the Company's stock price would generally have coincided with the actual disclosure of the information that was previously false or omitted. Regardless of the exact timing, it is reasonable to believe that had the market received all of the relevant information prior to November 15, 2002, it would have severely penalized the Company's stock price prior to that time. Given the content of e-mails and other documents, it is apparent that senior management had a similar understanding about what the market reaction would be and determined not to share the information.¹⁵⁴ Please refer to Exhibit 3 for a more complete diagram of the fluctuations during the relevant period in NorthWestern's stock price.

Event	Closing price ¹⁵⁵
February 15, 2002 NorthWestern acquired Montana Power.	\$21.60
August 8, 2002 NorthWestern reaffirmed \$2.30 -\$2.55 EPS target for 2002.	\$12.30
September 20, 2002 NorthWestern filed amended 10-Q's for the first and second quarters of 2002.	\$10.00
October 8, 2002 NorthWestern completed common stock offering.	\$7.48
November 7, 2002 NorthWestern lowered its EPS target for 2002 to \$1.50 -\$1.60.	\$7.88
December 13, 2002 NorthWestern announced that it would miss its EPS targets and potential of goodwill impairment.	\$5.00
April 15, 2003 NorthWestern filed its 2002 10-K and restated the first three quarters of 2002.	\$2.27

Covenant default

80. The CSFB \$280 million credit facility, which was in place from January 14, 2002¹⁵⁶ until its repayment on February 10, 2003,¹⁵⁷ included financial covenants. The violation of

¹⁵⁴ Memo from K. Orme to M. Lewis, D. Hyland and E. Jacobsen, Re: Financing Plans & Considerations, May 5, 2002, pp. 3-5 (NOR056240-42).

¹⁵⁵ Bloomberg stock quote data



any of these covenants would have been considered an Event of Default and would have given CSFB the authority to cease funding the credit facility, demand payment of the full outstanding amount of the loan¹⁵⁸ or prohibit NorthWestern from paying cash dividends.¹⁵⁹

81. The violation of a financial covenant is a significant negative signal to the market as it is an indication of a company's failing financial health. These covenants, which are typically set with cushion to give a company operating flexibility, are in place to protect lenders from a company with deteriorating financial performance. By setting these covenants at points where the lender believes that the company could still repay its loan, the lender can force the borrower to the negotiating table to allow for a satisfactory restructuring if necessary. Since the ramifications of covenant defaults can include the acceleration of existing loans or the prohibition on new funding, the existence of a default is material to the capital market's assessment of a company's financial status. At its extreme, a covenant default can call into question a company's ability to function as a going concern.

82. The three covenants were:

- Minimum net worth of the company must be at least \$350 million on the last day of any fiscal quarter.¹⁶⁰
- The funded debt to total capital ratio must not exceed 72% on the last day of any fiscal quarter prior to the termination date.¹⁶¹
- The utility business EBITDA to consolidated recourse interest expense ratio on the last day of any fiscal period must not be less than 2 to 1.¹⁶²

83. Based on the covenant calculations provided by Mr. Berliner, beginning June 30, 2002 and continuing through the year, NorthWestern's net worth would have been below \$350.¹⁶³ Additionally, NorthWestern's funded debt to total capital ratio would have

¹⁵⁶ NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), p. 1.

¹⁵⁷ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 61.

¹⁵⁸ Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), pp. 63, 70, 72.

¹⁵⁹ NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), pp. 66-67.

¹⁶⁰ NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), p. 63.

¹⁶¹ NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002, Exhibit 10.1, Amendment No. 2 to Credit Agreement, p. 1.

¹⁶² NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002, Exhibit 10.1, Amendment No. 2 to Credit Agreement, p. 2.

¹⁶³ Expert Report of Robert W. Berliner, CPA, CFE, September 19, 2007, Attachments A-1 and A-2 to the Basis for Opinion 4.



exceeded 72% during the same period.¹⁶⁴ NorthWestern would therefore have been in violation of its minimum net worth and funded debt to total capital ratio covenants during that period and subject to the consequences of those violations, which I discuss below.

Funding of CSFB \$280 million credit facility

84. Given the covenant default, one of the first financing issues that the Company would have faced is the funding of the CSFB \$280 million revolving credit facility.¹⁶⁵ As calculated by Mr. Berliner, NorthWestern would have been in violation of two financial covenants at that time.
85. The default would have given a majority of the bank group the right to terminate their commitment or accelerate their loans,¹⁶⁶ which all else being equal would have, put NorthWestern into a negative cash position in the next quarter when it had debt repayments of over \$150 million coming due.¹⁶⁷ As of June 30, 2002, NorthWestern's cash balance was approximately \$80 million and during the third quarter, operations generated only \$3 million in cash.¹⁶⁸ With few if any sources of additional funds, NorthWestern would not have been able to make the debt repayments if CSFB did not provide the funds. The outstanding amount borrowed under the revolver increased from \$0 at the end of the second quarter¹⁶⁹ to \$231 million at the end of the third quarter,¹⁷⁰ because, among other things, NorthWestern used draws on the revolver to pay off the debt that matured in September. Specifically, as of August 7, 2002, the balance on the revolver was \$35 million with \$11.7 million in letters of credit outstanding.¹⁷¹ As of September 9, 2002, the balance was \$68 million with \$19.6

¹⁶⁴ Expert Report of Robert W. Berliner, CPA, CFE, September 19, 2007, Attachments A-3 and A-4 to the Basis for Opinion 4.

¹⁶⁵ NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002, p. 29.

¹⁶⁶ NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), p. 72.

¹⁶⁷ NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003, pp. 49-53. NorthWestern Form 10-Q/A for the period September 30, 2002 filed April 15, 2003, pp. 52-53.

¹⁶⁸ NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002, Consolidated Statement of Cash Flows, pp. 4-5. NorthWestern Form 10-Q for the period September 30, 2002 filed November 14, 2002, Consolidated Statement of Cash Flows, pp. 4-5.

¹⁶⁹ NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003, pp. 49-53.

¹⁷⁰ NorthWestern Form 10-Q/A for the period September 30, 2002 filed April 15, 2003, p. 52.

¹⁷¹ NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002, p. 29.



million in letters of credit outstanding,¹⁷² and the balance increased to \$231 million by the end of the month.

86. Additionally, because NorthWestern had not drawn on the CSFB facility at the end of the second quarter, CSFB would have been well positioned not to fund when the truth about NorthWestern's financially stressed situation was disclosed.

\$87 million equity offering

87. The market's realization that the Company's future prospects were significantly worse due to the proper disclosure of information, combined with the likely negative reaction of the rating agencies and the stock price, and the defaulted status of its only present accessible source of credit financing (the CSFB credit facility) would have had a significant negative effect on the Company's ability to raise equity.
88. First, the maintenance of an investment grade credit rating was a condition of the underwriting agreement.¹⁷³ Independent of that agreement, the need for the Company to maintain its credit rating as an important factor in raising equity was also acknowledged by NorthWestern management: "Q. So to the extent NorthWestern wanted to close on the equity offering, it was important for the rating not to change, correct? A. That's one factor, yes."¹⁷⁴
89. Second, as a result of its "junk bond" status and covenant default, the Company would have been unappealing to the debt markets; therefore, the equity markets (which rely on utility companies' ability to obtain large amounts of debt capital to fund themselves) would have been uninterested in investing in NorthWestern due to its nearly illiquid position.
90. Third, there was a high likelihood that the Company's stock price would have dropped significantly due the market's revised expectations regarding NorthWestern's future prospects causing an equity offering to be prohibitively dilutive and costly. As two quarters of consolidated EBITDA falling well below expectations would have been

¹⁷² NorthWestern Form 10-Q/A for the period June 30, 2002 filed September 20, 2002, p. 38.

¹⁷³ NorthWestern Form 8-K for the period October 2, 2002 filed October 8, 2002, Exhibit 1.1, p. 12.

¹⁷⁴ Deposition of Eric Jacobsen, June 19, 2007, p. 155.



released by October 2002, as well as negative EBITDA at Expanets and the other disclosures described above,¹⁷⁵ and according to Mr. Berliner, a portion of the impairment would be recorded in the second quarter, a decline, similar to the one that actually occurred, in the Company's stock price would have occurred by October 2002. As the SEC stated, "NorthWestern recognized that improvement in the performance of both Expanets and Blue Dot was critical to its planned equity offering."¹⁷⁶

91. These factors combined with the fact that the equity markets were increasingly tight throughout 2002, particularly for utilities, and not receptive to companies with high leverage and negative operating trends lead to the conclusion that the Company would have been unable to complete the October 2002 equity offering that raised \$81 million in net proceeds.
92. With public equity financing ruled out as a reasonable financing alternative, NorthWestern would have considered private equity as an option to raise capital. However, the Company had endeavored to raise funds privately in September 2002 but was unable to complete this type of transaction as discussed by Bear Stearns: "Evercore [private equity firm] has completed its diligence efforts and has decided that it is not comfortable with a \$200M investment... Primary reasons were: Structural concerns (secured vs. unsecured nature of investment) coupled with lack of visibility at Expanets".¹⁷⁷ These concerns were expressed prior to disclosure of the restated and omitted information. Visibility would have only increased Evercore's concerns.
93. Additionally, the \$87 million equity offering that was completed was insufficient for the ratings agencies and for the equity analysts to change their negative opinions about the Company and was completed under false pretenses. The \$8.75 share price¹⁷⁸ was troubling to the market as described in the following: "The company has previously indicated that it plans to issue approximately \$200 million in new equity to strengthen

¹⁷⁵ NorthWestern Form 10-Q for the period March 31, 2002 filed April 15, 2003, p. 17. NorthWestern Form 10-Q for the period June 30, 2002 filed April 15, 2003, p. 23.

¹⁷⁶ Securities and Exchange Commission, Order Instituting Cease-and-Desist Proceedings, Making Findings and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934, March 7, 2007, p. 3.

¹⁷⁷ Bear Stearns Presentation to NorthWestern Corporation, September 20, 2002, p. 1 (NOR057787).

¹⁷⁸ NorthWestern Form 8-K for the period October 2, 2002 filed October 8, 2002, Exhibit 1.1, Schedule B.



its balance sheet. NorthWestern recently completed the sale of 10.0 million shares at \$8.75. We expect further balance sheet strengthening may be required, either through additional equity sales and/or the sale of non-strategic assets."¹⁷⁹

94. In addition, the equity offering did not alleviate the liquidity crisis NorthWestern was facing. A month later, in a November 15, 2002 Action Plan memo, Gary Drook, Chairman of Corporate Governance Committee of the Board of Directors of NorthWestern, wrote the following to Merle Lewis, CEO of NorthWestern and Richard Hylland:

Diligently and expeditiously work to replace or amend the existing Company credit facility with CSFB as soon as possible... explore whether any financial sponsors or mezzanine funds would consider a debt for equity swap... Continue to pursue cost savings that can be accomplished within the next three months. Consider, among other things, (a) sell plane, (b) reduction in corporate events and contributions, (c) reduction in corporate personnel, (d) senior management compensation plans ... Consider nothing as sacred.¹⁸⁰

95. The measures recommended in the memo reflect a growing desperation at the Company and a clear understanding of the severity of its situation.
96. With the promised equity offering not completed in 2002, had the proper financial disclosures been made, an additional ratings downgrade (more severe than the one following the agencies' disappointment at only raising \$87 million in the October 2002 equity offering) would likely have occurred. The likelihood of this impact had been communicated by Bear Stearns to NorthWestern when it presented financing alternatives in September 2002: "Rating agencies will most likely downgrade debt due to no 'equity' component in the financing strategy".¹⁸¹
97. NorthWestern management clearly understood the debt market's expectation of an equity offering:

During our March offering of the \$720M in bonds we explicitly stated our intent to subsequently issue \$200M equity in the near future and to use these proceeds, along with the Colstrip sale proceeds, to pay down debt.

¹⁷⁹ UBS Warburg, Global Equity Research, NorthWestern Corp., November 7, 2002.

¹⁸⁰ Memorandum Gary G. Drook to Merle D. Lewis and Richard R Hylland, Action Plan, November 15, 2002 (NOR521188-90).

¹⁸¹ Bear Stearns Presentation to NorthWestern Corporation Board of Directors, September 27, 2002, p. 7 (NOR255877).



To be fair, our bonds were issued at spreads significantly greater than comparable BBB companies, so a certain degree of uncertainty was originally priced into our bonds. Nevertheless, these same bondholders are now growing impatient as to our stock issuance (though, it is entirely likely that various of our bondholders have also taken short positions, thereby hedging their risks.) Our bonds have recently traded much wider than even the original spreads and the ability to sell our bonds is somewhat limited currently. Should we subsequently delay our equity offering there will be a negative repercussions with our bondholders and make it difficult to access this market in the future (at least until we subsequently perform against our original representations).¹⁸²

98. The less than expected equity offering caused Fitch to downgrade each of its credit ratings for NorthWestern in October 2002.¹⁸³ The lack of equity was also cited as a contributing factor in later downgrades by S&P and Moody's.¹⁸⁴
99. NorthWestern's management also concealed important facts that might have disrupted the offering. As an example, the billing and collectability problems at Expanets, which were known to NorthWestern management by October 2002,¹⁸⁵ were not disclosed in the prospectus related to the equity offering. In fact, the Expert system, which was the cause, was described as "operational" and generating "savings".

In November 2001, Expanets installed an enterprise software system, the EXPERT system, and although additional costs have been incurred during 2002 to enhance the system's operational capabilities, the system has eliminated redundant costs incurred under the former transition service agreements executed with Avaya as part of the original Lucent GEM acquisition. The system is now operational and savings are expected to continue throughout 2002 both from efficiencies and the reduction of non-capitalizable integration costs from the project.¹⁸⁶

Suspension of cash dividend payment

100. A further complication related to the violation of the financial covenants in the second quarter of 2002 is that the CSFB credit agreement provided that the Company could

¹⁸² Jacobsen Exhibit 7, Memo from K. Orme to M. Lewis, D. Hylland and E. Jacobsen Re: Financing Plans and Considerations, May 28, 2002 (NOR056240-41).

¹⁸³ Fitch press release: Fitch Dwngr NorthWestern Corp Sr Sec To 'BBB+'; Outlook Negative, October 14, 2002.

¹⁸⁴ Moody's Investor Services, Global Credit Research Rating Action, December 20, 2002 (NOR99652-53). Standard & Poor's Press Release: NorthWestern Corp.'s Corporate Credit Rating Lowered to 'BB+'; Outlook Remains Negative, December 30, 2002 (NOR058328-32).

¹⁸⁵ Fresia Exhibit 13, Timeline of key events (ultimately) leading to 12/31/02 reserve (NOR306791-92).

¹⁸⁶ NorthWestern Corp. Form 424B2 filed October 3, 2002, S-41.



not pay dividends.¹⁸⁷ Similarly, the credit agreement provided that if NorthWestern's credit rating was downgraded to below BBB- by S&P and below Baa3 by Moody's which would have likely occurred as early as the first quarter,¹⁸⁸ the dividend would have to be suspended.¹⁸⁹

101. This situation was noted by Merrill Lynch in August 2002:

If for whatever reason NOR is unable to maintain its recent strength of operations (particularly in telecom), the dividend could be at risk. Moreover, given covenants on its bank line, in the event that its credit is downgraded to below investment grade, the common dividend would be suspended until credit strength is restored. Importantly, NOR's current debt rating remains two notches above junk (BBB2/negative outlook) and the Company's intent to ultimately raise \$150-\$200mm in new private and public equity is targeted to maintain its BBB rating.¹⁹⁰

102. However, even if NorthWestern was allowed to pay dividends and the CSFB facility was fully funded because of a waiver, NorthWestern's realization of the unregulated subsidiaries failure to return any of NorthWestern's investments (\$966.5 million at December 31, 2002¹⁹¹) nor provide any source of future cash flow to help reduce its highly leveraged balance sheet, would have forced NorthWestern to reevaluate the payment of cash dividends.

103. Bear Stearns, as financial advisor to the Company, repeatedly recommended that NorthWestern reduce or eliminate its dividend in September 2002 as a way to shore up the Company's balance sheet and maximize the return to its investors. Specifically, Bear Stearns stated in its September 23 presentation to NorthWestern, "[p]rovided management achieves its projections, all of the financing alternatives, coupled with a suspension in the dividend, will provide significantly more value to shareholders than proceeding with the common equity capital raising alternative... the suspension of the dividend alternative remains superior to the common equity offering..."¹⁹²

¹⁸⁷ NorthWestern Form 10-K405 for the period December 31, 2001 filed April 1, 2002, Exhibit 10(b)(1), pp. 66-67.

¹⁸⁸ See Exhibit 4.

¹⁸⁹ NorthWestern Corp. Form 424B2 filed October 3, 2002, S-9. NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002, Exhibit 10.1, Amendment No. 2 to Credit Agreement, p. 2.

¹⁹⁰ Merrill Lynch, NorthWestern Corp., Too Many Uncertainties for Today's Market, August 19, 2002 (NOR026462).

¹⁹¹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, pp. 25, 28.

¹⁹² Bear Stearns Presentation to NorthWestern Corporation, September 23, 2002, pp. 3-4 (NOR057819-20).



104. Notably, Bear Stearns' recommendations to the Board were made at a time when the Company's bleak prospects were still concealed. It appears that NorthWestern resisted this advice to maintain the false appearance of normalcy being well aware that the negative consequences of a suspension of its dividend could include a drop in the stock price and "WSJ front-page exposure."¹⁹³ As NorthWestern determined that it would go to market with an equity offering in October 2002, it understood that an announcement related to a reduction or suspension in its dividend would be detrimental to the offering because as Bear Stearns communicated in another presentation to NorthWestern, the "...Company's short-term share price may be under significant pressure if a dividend suspension is announced."¹⁹⁴ Morgan Stanley explained this relationship in one of its reports on NorthWestern: "Our valuation is primarily yield driven. Any material change in the outlook for the dividend could affect the market's valuation of these shares."¹⁹⁵

105. Indeed, when NorthWestern eventually announced that it was even deferring the decision to declare a dividend on February 6, 2003,¹⁹⁶ its stock price fell to \$3.95 from \$4.90 the day before. And when it announced the suspension of the dividend on February 19, 2003¹⁹⁷ the stock price fell to \$2.60 – a nearly 50% decline in only two weeks.

106. In its Final Order related to the approval of the issuance of First Mortgage Bonds in connection with the CSFB \$390 million term loan, even the MPSC stated its expectation that dividend reduction would be explored by NorthWestern:

By approving this security application, subject to the conditions contained in this Order, the Commission is not satisfied that NorthWestern has pursued all available options for digging out of the financial crisis which threatens utility service quality and rates. The Commission expects the board of directors and management, to fully examine all options, including but not limited to: dividend policy and payouts; board of directors and senior management compensation levels and concessions; disposition of

¹⁹³ Bear Stearns Presentation to NorthWestern Corporation, September 27, 2002, p. 3 (NOR255873).

¹⁹⁴ Bear Stearns Presentation to NorthWestern Corporation, September 27, 2002, p. 3 (NOR057873).

¹⁹⁵ UBS Warburg, Global Equity Research, NorthWestern Corp., November 7, 2002, p. 2..

¹⁹⁶ Press Release: NorthWestern's Board of Directors Defers Dividend Decision, February 6, 2003.

¹⁹⁷ Press Release: NorthWestern Corporation Outlines Turnaround Plan Company Will Focus on Core Utility Business, Improving Liquidity and Paying Down Debt Common Stock Dividend Suspended Company Projects Charges of Approximately \$700 Million in 2002, February 19, 2003.



non-utility assts/operations; and sale of the Montana First Megawatts project, or a portion thereof.¹⁹⁸

107. The announcement of a dividend suspension would have resulted in further pressure on the Company's bond rating to the extent that it limited its ability to raise equity to improve its overleveraged balance sheet.

\$390 million CSFB financing

108. By early October 2002, had all of the accurate information been known, NorthWestern's ability to meet its obligations would have been questionable. That fact combined with the inability to raise equity would have made it difficult to refinance the CSFB \$280 million revolving credit facility (assuming that CSFB funded the facility in light of the above mentioned covenant defaults and greatly reduced prospects) with the CSFB \$390 million senior secured term loan (backed by first mortgage bonds of all three operating utilities), particularly under the same terms and conditions as in the actual February 2003 financing. An important note is that the use of the \$390 million of first mortgage collateral appears to cause NorthWestern to reach the maximum amount of First Mortgage Bonds that it can offer;¹⁹⁹ and therefore, would have prohibited the Company could not issue any additional first mortgage bonds as collateral for any new financing, its only practical option for raising capital with its very weak credit characteristics.
109. Furthermore, even if NorthWestern would have been able to complete the refinancing, the net \$86 million (\$366 million less \$280 million)²⁰⁰ would have done little to change the Company's prospects other than to postpone the inevitable demise of the Company.
110. One reason this financing was completed in the first place was to convert CSFB's outstanding \$280 million credit facility to a facility secured by First Mortgage Bonds. CSFB essentially swapped its unsecured \$280 million position for a \$390 million fully

¹⁹⁸ Department of Public Service Regulation before the Public Service Commission of the State of Montana, In the Matter of the Application of NorthWestern Corporation for Authority to Consummate a Credit Agreement and Issue \$390 Million in Principal Amount of Secured Long-Term Notes in the Form of First Mortgage Bonds, Final Order, January 27, 2003, p. 9 (NOR001614).

¹⁹⁹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 63.

²⁰⁰ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 6. RBC Capital Markets, NorthWestern Corporation, Pessimism Overhangs Stock, February 18, 2003, p. 23.



secured term loan. Other lenders (or CSFB if it did not have an existing loan) would not have had the incentive to lend into a new credit with junk ratings and severely limited prospects for recovery.

111. In addition, the MPSC had to approve the issuance of Montana First Mortgage Bonds for the \$390 million loan. If that approval had been required before the going flat transaction, but after the serious questions about NorthWestern's viability were revealed, the MPSC would have had little incentive to grant the use of Montana First Mortgage Bonds as doing so would further expose the Montana rate payers to NorthWestern's risk.
112. As will be discussed in greater detail in the following section, members of the MPSC felt that they had been misled by NorthWestern and were concerned about the impact NorthWestern's financial condition would have on Montana consumers. This, at a time when it was not fully aware of all of NorthWestern's problems with its subsidiaries and other liquidity issues. Enumerating its disturbances, the MSPC noted specifically the fact that certain of NorthWestern's credit ratings were below investment grade as well as the significant funding requirements of the Montana First Megawatts project, Expanets, Blue Dot, and CornerStone.²⁰¹
113. In his dissenting opinion, one of the Commissioners stated,

The applicant has presented the Commission with a "fait accompli" by using part of the credit facility used in the purchase of MPC to finance non-utility ventures. Now that it is the time to restructure the credit facility the Commission is asked to sanction the use of utility assets to secure the debt of the non-utilities as well. This has been presented to the Commission as a unique event, the applicant is in desperate financial conditions and the utility itself is threatened by the conditions that face the applicant.

The Commission should not succumb to the exigency of imminent crisis and establish precedent that will undoubtedly be visited in the future. The non-utility businesses are beyond the regulatory scope of the Commission. Profits, losses or catastrophic failures of non-utility

²⁰¹ Department of Public Service Regulation before the Public Service Commission of the State of Montana, In the Matter of the Application of NorthWestern Corporation for Authority to Consummate a Credit Agreement and Issue \$390 Million in Principal Amount of Secured Long-Term Notes in the Form of First Mortgage Bonds, Final Order, January 27, 2003, p. 5 (NOR001610).



operations are beyond regulatory reach, hence regulated assets should not be tendered as security for those business ventures.²⁰²

114. Additionally, many of the reasons that formed the bases for the CSFB team's recommendation in November 2002, to proceed with the underwriting and syndicating of the financing to its Investment Banking Committee were later exposed to be false. These include:

- "Strong financial covenants... The proposed collateral is a first priority perfected security interest in validly issued and outstanding first mortgage bonds. The collateral represents at least 100% of the principal amount of the credit facility. NorthWestern's senior secured first mortgage bonds are rated Baa1/BBB"²⁰³
- "Credit facility will receive a private rating equal to NorthWestern Energy's senior secured rating (Baa1/BBB+)"²⁰⁴
- "NorthWestern is committed to strengthening its balance sheet and has embarked upon a program aimed at reducing debt by approximately \$900 million over the next six years, through the issuance of equity and the sale of various non-core assets."²⁰⁵
- "NorthWestern management has assumed the following in its base case projections... \$65.0 million in proceeds from the sale of Colstrip in Q3:2003 are used to repay debt at NorthWestern Energy - Montana"²⁰⁶
- "Continued improvement in unregulated businesses and full insulation from risks... Priority access to cash flows from Blue Dot and Exp@nets."²⁰⁷

115. Specifically, regarding Expanets, CSFB noted:

NorthWestern's investment in Exp@nets has created one of the nation's leading providers of networked communications and data services and solutions to medium-sized businesses.... Exp@nets plans to generate increasing cash flows from this business through organic growth by broadening the services and products it offers, focusing on higher growth and higher margin services, building recurring maintenance and service revenues and fostering existing and developing supply relationships with the leading technology companies... it is expected that Exp@nets will be

²⁰² Dissenting Opinion of Commissioner Brainard, Docket No. D2002.12.159, January 24, 2003 (NOR001617).

²⁰³ Credit Suisse First Boston Submission to the Credit Committee \$400,000,000 Senior Secured Credit Facility, November 2002, p. 7 (CSFB016305).

²⁰⁴ Credit Suisse First Boston Submission to the Credit Committee \$400,000,000 Senior Secured Credit Facility, November 2002, p. 8 (CSFB016306).

²⁰⁵ Credit Suisse First Boston Submission to the Credit Committee \$400,000,000 Senior Secured Credit Facility, November 2002, p. 18 (CSFB016316).

²⁰⁶ Credit Suisse First Boston Submission to the Credit Committee \$400,000,000 Senior Secured Credit Facility, November 2002, p. 22 (CSFB016320).

²⁰⁷ Credit Suisse First Boston Submission to the Credit Committee \$400,000,000 Senior Secured Credit Facility, November 2002, p. 8 (CSFB016306).



positioned to deliver improved performance in 2002, having generated \$56.2 million of EBITDA in the nine months ending September 30, 2003.²⁰⁸

116. Regarding Blue Dot, CSFB wrote:

NorthWestern's management has also put in place an operational improvement plan aimed at improving Blue Dot's financial performance... As a result, Blue Dot's financial performance considerably increased over the last year [2001].²⁰⁹

117. Other than the collateral (which might not have been available as described above), each of these reasons would have been proven wrong had the Company made full disclosure of its problems.

Transfer of NorthWestern Energy, L.L.C. assets

118. On November 15, 2002, the Montana utility assets and liabilities of NorthWestern Energy, L.L.C., with the exception of the Milltown Dam, were transferred to NorthWestern. When the assets were initially acquired in February 2002, they were held as a subsidiary of NorthWestern.²¹⁰ As 2002 unfolded, however, and NorthWestern's leverage and liquidity situation worsened, maintenance of NorthWestern's credit rating continued to depend on the transfer of the Montana utility assets. When it was discussed at NorthWestern's board meeting, this fact was acknowledged as the impetus for the transfer: "NorthWestern Corporation believes it is advisable for rating agency purposes to move the assets of its wholly owned subsidiary, NorthWestern Energy LLC... to the Corporation to more directly support the obligations of the Corporation".²¹¹

119. The full consequences on ratings as well other financing activities of not transferring the assets were well known to NorthWestern. As Dennis Lopach, Senior Vice

²⁰⁸ Credit Suisse First Boston Submission to the Credit Committee \$400,000,000 Senior Secured Credit Facility, November 2002, pp. 11-12 (CSFB016309-10).

²⁰⁹ Credit Suisse First Boston Submission to the Credit Committee \$400,000,000 Senior Secured Credit Facility, November 2002, p. 16 (CSFB016314).

²¹⁰ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 5.

²¹¹ NorthWestern Corporation, Board of Directors meeting, Minutes of Regular Meeting, August 7, 2002 (NOR009571).



President of Administrative Services at NorthWestern in 2002,²¹² stated in his affidavit related to litigation attempting to stop the transfer, "[t]he continued ability of NOR to obtain the capital it relies upon to operate the utility businesses on reasonable terms is at risk if the restructuring is delayed. Moody's specifically noted that a delay in restructuring would likely result in a downgrade of NOR's rated debt, resulting in higher interest costs and, potentially, a reduced ability to obtain funds in the future."²¹³

120. Had the true financial situation of NorthWestern been disclosed in a timely manner during 2002, the Company's likely inability to finance itself would have clearly been established by October 2002, for all the reasons discussed above. Prior to the time of the transfer in November 2002, the equity offering would have been cancelled, there would have been a default under the Company's credit facility, and it is likely that NorthWestern would have been in a negative cash situation due to its maturing debt and would have suspended its dividend.

121. Regarding the transfer, Michael Hanson, president and CEO of NorthWestern Energy in 2002,²¹⁴ stated that in executing the officer's certificate in connection with the transfer of the assets, he relied on NorthWestern's false and misleading financial statements.²¹⁵

122. Given the dire circumstances, the transfer of the NorthWestern Energy L.L.C. assets likely would have been opposed by the stakeholders, including those holding the QUIPS, because it would have been apparent to these stakeholders that the prospects of being repaid by NorthWestern Energy L.L.C. were significantly better than the prospects of being repaid by NorthWestern.

123. Among these stakeholders would have also been the MPSC based on the concerns it expressed when NorthWestern requested approval from the Commission to issue Montana First Mortgage Bonds for the \$390 CFSB financing in early 2003. At that time the Commission stated the following concerns about the financial health of NorthWestern and its potential impact on Montana consumers:

²¹² Hanson Exhibit 11, Affidavit of Dennis Lopach, p. 2.

²¹³ Hanson Exhibit 11, Affidavit of Dennis Lopach, p. 7.

²¹⁴ "NorthWestern Energy ... was the trade name given to the utility operations in all three states..." Deposition of Michael Hanson, June 27, 2007, p. 9.

²¹⁵ Deposition of Michael Hanson, June 27, 2007, pp. 272-285.



- “The Commission views the financial condition of NorthWestern with great concern. The Commission approved NorthWestern as the purchaser of MPC's transmission and distribution systems. Since that approval the financial condition of NorthWestern has spiraled down due to non-utility activities at CornerStone Propane, Expanets, and Blue Dot. The Commission is dismayed at the erosion of NorthWestern's credit ratings to either the lowest investment grade or to junk status. The performance of the non-utility entities and the resulting threats to the provision of utility service is unacceptable to this Commission. The cost of borrowing money has been increased due to losses at the non-utility companies.”²¹⁶
- “The Commission is primarily responsible to ensure that regulated energy services provided to Montana consumers are safe, adequate and reliable at rates that are just and reasonable. NorthWestern's ability to fulfill these requirements is placed at risk by its current financial conditions. Serious questions exist about the ability and commitment of NorthWestern to pursue adequate and necessary maintenance, repair and replacement of critical utility infrastructure when potential bankruptcy and survival occupy the attention of the board of directors and management.”²¹⁷
- “Because the Commission has continuing concerns about the performance and prospects of Applicant's non-utility businesses, and the implications of their financial performance for utility customers, the following conditions are expressly added to this Order...” These included a requirement that proceeds from the sale of non-utility assets must be used for debt reduction, disapproval of further investments in the subsidiaries, a maintenance plan and budget for the public utility infrastructure within 45 days.²¹⁸

124. These comments were made by the MPSC in January 2003, before the restated financials were disclosed and without full knowledge of NorthWestern's financial deterioration. Full knowledge would have only served to increase the commission's concerns. As it was regarding the first mortgage bonds, the MPSC was aware of a

²¹⁶ Department of Public Service Regulation before the Public Service Commission of the State of Montana, In the Matter of the Application of NorthWestern Corporation for Authority to Consummate a Credit Agreement and Issue \$390 Million in Principal Amount of Secured Long-Term Notes in the Form of First Mortgage Bonds, Final Order, January 27, 2003, pp. 5-6 (NOR001610-11).

²¹⁷ Department of Public Service Regulation before the Public Service Commission of the State of Montana, In the Matter of the Application of NorthWestern Corporation for Authority to Consummate a Credit Agreement and Issue \$390 Million in Principal Amount of Secured Long-Term Notes in the Form of First Mortgage Bonds, Final Order, January 27, 2003, p. 9 (NOR001614).

²¹⁸ Department of Public Service Regulation before the Public Service Commission of the State of Montana, In the Matter of the Application of NorthWestern Corporation for Authority to Consummate a Credit Agreement and Issue \$390 Million in Principal Amount of Secured Long-Term Notes in the Form of First Mortgage Bonds, Final Order, January 27, 2003, pp. 8-9 (NOR001613-14).



subset of the negative news, but faced with a Hobson's choice approved the bonds. However, as described above, much of this information was known to NorthWestern's management and should have been disclosed to the public prior to the transfer. I would expect, based on the above reaction, that the MPSC would have been equally upset and concerned about the transfer of assets had they been fully informed of NorthWestern's financial difficulties at the time of the transfer.

125. Additionally supporting my belief is the fact that the negative consequences to Montana Power as a result of the acquisition by NorthWestern stand in stark contrast to the assurances provided to the MPSC by Michael Hanson prior to the acquisition. When asked to "address financial capability under two aspects: financial strength and financial flexibility", Mr. Hanson stated that,

In general, we believe that capital will be no more expensive with NorthWestern as owner of MPC than is the case today. As I indicated, NorthWestern has enjoyed consistent access to capital on reasonable terms. While our corporate structure may seem complex on first examination, it assures separation of the utility related financings from other activities, and it should not create any new or additional concerns for this Commission because MPC has itself had significant non-utility operations.²¹⁹

126. A final point that would have created yet another impediment to the transfer, further taxing the Company's liquidity, is the potential for a cross-default and acceleration on the \$40 million of notes.²²⁰ As NorthWestern would have likely been in default under its CSFB \$280 million facility, it is my understanding from counsel that the transfer would, under these circumstances, lead to an event of default on the \$40 million outstanding Montana Unsecured Medium Term Notes.²²¹

²¹⁹ Department of Public Service Regulation before the Montana Public Service Commission of the State of Montana, Joint Application of the Montana Power Company and NorthWestern Corporation, Supplemental Filing, August, 27, 2001, MJH-9 (NOR044711).

²²⁰ The Montana Power Company to Citibank, N.A., Trustee, Indenture, Dated as of December 1, 1989, Section 801(d), pp. 45-46.

²²¹ NorthWestern Form 10-Q/A for the period September 30, 2003 filed April 15, 2003, pp. 52-53.



II. Had the assets of NorthWestern Energy, L.L.C. not been transferred to NorthWestern, the QUIPS investors would have been covered by the former's assets and not junior to the debt and other liabilities of NorthWestern Corp.

127. The QUIPS, which have a liquidation value of \$65 million, were issued by a trust with \$67 million in NorthWestern Energy, L.L.C. (formerly Montana Power) subordinated debentures in assets.²²² In the notes to its 2001 10-K, NorthWestern Energy, L.L.C. described its obligations in relation to the debentures as follows:

Besides our obligations under the Subordinated Debentures, we have agreed to certain Back-up Undertakings. We have guaranteed, on a subordinated basis, payment of distributions on the Trust Securities, to the extent the Trust has funds available to pay such distributions. We also have agreed to pay all of the expenses of the Trust. Considered together with the Subordinated Debentures, the Back-up Undertakings constitute a full and unconditional guarantee of the Trust's obligations under the QUIPS.²²³

128. On September 30, 2002, according to the latest financial statements of NorthWestern Energy, L.L.C. prior to the November 15 asset transfer, the debentures were junior to \$442.5 million of long-term debt.²²⁴ NorthWestern Energy L.L.C. had tangible assets (total assets less goodwill) of \$1.2 billion and tangible assets less total liabilities of \$253.8 million, providing approximately four times coverage of the \$65 million in QUIPS.²²⁵ However, a valuation performed by the consulting firm, BearingPoint, indicated that the fair value of certain of the Montana assets were \$1.5 billion as of December 31, 2002.²²⁶ At this valuation level, the asset coverage based solely on BearingPoint's valuation provided to the QUIPS was \$575.6 million (calculated as \$1.5

²²² NorthWestern Energy, L.L.C. Form 10-K for the period December 31, 2001, Note 7.

²²³ NorthWestern Energy, L.L.C. Form 10-K for the period December 31, 2001, Note 7.

²²⁴ Long-term debt includes current maturities of long-term debt. It is my understanding that the QUIPS are contractually subordinated to the senior debt, however, NorthWestern Energy L.L.C. and NorthWestern had additional debt outstanding including trade payables, to which, in certain circumstances, the QUIPS may also be subordinated. NorthWestern Form 10-Q/A for September 30, 2002 filed April 15, 2003, Balance Sheet Consolidating Schedules, p. 21.

Total liabilities assumed by NorthWestern from Montana Power as part of the transfer were \$710 million. Objections and Responses of Defendant NorthWestern Corporation to Plaintiff's First Request for Admissions, Response to Request No. 2.

²²⁵ NorthWestern Form 10-Q/A for September 30, 2002 filed April 15, 2003, Balance Sheet Consolidating Schedules, p. 21.

²²⁶ The subject assets of this valuation include: The Montana Power Company, Canadian-Montana Pipeline Corporation, One-Call Locators, LLC, Montana Power Capital I, Discovery Energy Solutions, and Montana Power Natural Gas Funding. Current assets, spare parts inventory and the Milltown Dam environmental liability. BearingPoint Valuation Report Prepared for: NorthWestern Corporation, Determination of the Fair Value of Certain Underlying Assets acquired from Montana Power, LLC, Valuation as of December 31, 2002 (NOR266670-672).



billion less NorthWestern Energy L.L.C. total liabilities of \$924.4 million on September 30, 2002, the last day that separate financials was reported²²⁷).

129. Like NorthWestern's South Dakota and Nebraska utility assets, the Montana utility assets of NorthWestern Energy, L.L.C. generally produced stable positive results. As of November 2002, year-to-date EBITDA of the Montana segment of NorthWestern exceeded plan by 27.3% with net income exceeding plan by 134.8%.²²⁸
130. After the transfer, the QUIPS were junior to over \$1.7 billion of NorthWestern's long-term debt.²²⁹ As of December 31, 2002, however, NorthWestern had tangible assets (total assets less goodwill and other intangible assets) of \$2.2 billion and tangible assets less total liabilities of *negative* \$593.7 million.²³⁰ Additionally, NorthWestern reported an equity *deficit* of \$456 million.²³¹ Compared to the asset coverage for the QUIPS at NorthWestern Energy, L.L.C., ranging from four to eight times coverage depending on the valuation of the assets, NorthWestern provided no coverage for the QUIPS.

III. Assuming Clark Fork remained liable for the QUIPS obligations; Clark Fork would not have had the financial ability to meet those obligations.

131. Subsequent to the transfer of the Montana assets to NorthWestern on November 15, 2002, the Milltown Dam, a hydroelectric dam, was the only asset retained by Clark Fork.²³² Clark Fork did not receive any cash for the transfer of the \$1.5 billion in Montana assets²³³ and NorthWestern only assumed approximately \$700 million of certain liabilities.²³⁴

²²⁷ NorthWestern Form 10-Q/A for September 30, 2002 filed April 15, 2003, Balance Sheet Consolidating Schedules, p. 21.

²²⁸ NorthWestern Management Financial and Information Report for the Month Ended November 30, 2002, p. 7 (NOR362149).

²²⁹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, Consolidated Balance Sheets.

²³⁰ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, Consolidated Balance Sheets.

²³¹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, Consolidated Balance Sheets.

²³² Complaint to Avoid the Transfer of Assets of Clark Fork and Blackfoot LLC (f/k/a NorthWestern Energy LLC) to NorthWestern Corporation, April 2004, p. 7.

²³³ BearingPoint Valuation Report Prepared for: NorthWestern Corporation, Determination of the Fair Value of Certain Underlying Assets acquired from Montana Power, LLC, Valuation as of December 31, 2002 (NOR266672).

²³⁴ Complaint to Avoid the Transfer of Assets of Clark Fork and Blackfoot LLC (f/k/a NorthWestern Energy LLC) to NorthWestern Corporation, April 2004, p. 7.



132. On November 14, 2002, in a letter from NorthWestern Energy, L.L.C. to the Bank of New York, NorthWestern Energy, L.L.C. described the revenue stream and cost structure of the Milltown Dam site.²³⁵ The letter stated that from 2002 through 2010, the Milltown Dam site is expected to “lose a minimum of \$700,019.00 ... and a maximum of \$1,720,200.00.”²³⁶ Also, as of December 31, 2002, “NorthWestern states that the balance sheet of Clark Fork reflected total assets of \$11,005,407 and total liabilities of \$11,005,407...”²³⁷
133. It was also reported that, “[o]n the basis of the above analysis, the Dam Site’s fixed revenue stream is not sufficient to cover the projected cost to operate the generation facility. As a result, absent ownership by a vertically integrated utility under a traditional regulated utility environment, the Dam Site has no value as a stand-alone economic operating unit. In light of this fact, the Dam Site’s adds no value to the overall bond indenture collateral package.”²³⁸
134. Additionally, the Milltown Dam operates under a license granted by the Federal Energy Regulatory Commission (“FERC”).²³⁹ Extensions for the license must be applied for five years in advance. If the extension is not approved and the license is “terminated, the FERC may require that the dam be removed. ... Based on estimates received from our environmental consultants, management believes that the cost of such removal would be approximately \$10 million.”²⁴⁰
135. Given that Clark Fork had assets totaling only \$11 million with an equal amount of book liabilities, is potentially responsible for environmental remediation of approximately \$10 million if it needs to remove the dam, has an uncertain life span and

²³⁵ Letter from Michael Hanson to MaryBeth Lewicki Re: Economic Viability of Milltown Dam Hydroelectric Facility Site dated November 14, 2002 (NOR000803-04).

²³⁶ Letter from Michael Hanson to MaryBeth Lewicki Re: Economic Viability of Milltown Dam Hydroelectric Facility Site dated November 14, 2002 (NOR000804).

²³⁷ Objections and Responses of NorthWestern Corporation to Plaintiffs’ Magten Asset Management Corporation and Law Debenture Trust Company of New York’s First Set of Interrogatories for Defendant NorthWestern Corporation, March 27, 2007, p. 9.

²³⁸ Letter from Michael Hanson to MaryBeth Lewicki Re: Economic Viability of Milltown Dam Hydroelectric Facility Site dated November 14, 2002 (NOR000804).

²³⁹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 17.

²⁴⁰ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, p. 17.



has negative projected cash flows through 2010, the repayment of the \$65 million QUIPS liability is doubtful.²⁴¹

Dated this 19th day of September, 2007
Respectfully submitted,

A handwritten signature in black ink that reads "Paul A. Marcus". The signature is written in a cursive, flowing style.

PAUL A. MARCUS
Huron Consulting Services LLC
470 Atlantic Avenue, 14th Floor
Boston, Massachusetts 02210
Telephone No. (617) 226-5546
Facsimile No. (617) 226-5555

²⁴¹ NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003, F-52.

Exhibit 1
Sources Reviewed

Description	Beginning Bates #	Ending Bates #
Asset and Stock Transfer Agreement, November 15, 2002	NOR000074	NOR000163
Economic Viability of Milltown Dam Hydroelectric Facility Site	NOR000803	NOR000805
Company order by NorthWestern Energy	NOR000909	NOR000911
Officer's Certificate, November 15, 2002	NOR000920	NOR000921
1/27/2003 - Final Order of the Public Service commission regarding the issuance of the \$390 million	NOR001606	NOR001617
Memo, Re: Revised Proposed 2003 Operating Plan	NOR006177	NOR006219
The Montana Power vs. The Bank of New York (Trustee) Indenture, 11/1/96	NOR009214	NOR09296
Resolution of Managing Member	NOR009413	NOR009413
Board of Directors Minutes of the Special Meeting, January 2, 2002	NOR009538	NOR009539
Board of Directors Minutes of Special Meeting, March 18, 2002	NOR009551	NOR009553
Board of Directors Minutes of Special Meeting, June 21, 2002	NOR009556	NOR009567
Board of Directors Minutes of Regular Meeting, August 7, 2002	NOR009568	NOR009583
Board of Directors Minutes of Special Meeting, September 10, 2002	NOR009584	NOR009585
Board of Directors Minutes of Special Meeting, September 12, 2002	NOR009586	NOR009587
Board of Directors Minutes of Special Meeting, September 18, 2002	NOR009588	NOR009589
Board of Directors Minutes of Special Meeting, September 20, 2002	NOR009590	NOR009593
Board of Directors Minutes of Special Meeting, September 20, 2002	NOR009594	NOR009594
Board of Directors Minutes of Special Meeting, September 27, 2002	NOR009595	NOR009597
Board of Directors Minutes of Regular Meeting, November 6, 2002	NOR009598	NOR009607
Board of Directors Minutes of Special Meeting, December 9, 2002	NOR009608	NOR009609
Board of Directors Minutes of Special Meeting, December 12, 2002	NOR009610	NOR009619
Board of Directors Minutes of Special Meeting, January 3, 2003	NOR009620	NOR009622
Board of Directors Minutes of Special Meeting, January 5, 2003	NOR009623	NOR009626
Board of Directors Minutes of Regular Meeting, February 5, 2003	NOR009627	NOR009636
Board of Directors Minutes of Special Meeting, February 18, 2003	NOR009637	NOR009642
Board of Directors Minutes of Special Meeting, May 6, 2003	NOR009643	NOR009646
Board of Directors Minutes of Regular Meeting, May 6, 2003	NOR009647	NOR009662
Third Supplemental Indenture	NOR009730	NOR009736
Paul Hastings letter to the Bank of New York and Bryan Cave Re: Transfer of Assets and Liabilities by NorthWestern Energy, LLC to NorthWestern Corporation September 26, 2002	NOR009840	NOR009935
The Montana Power vs. The Bank of New York (Trustee) 2nd Supplemental Indenture	NOR009999	NOR010005
Memo to Lewis/Hylland from Drook, Re: Action Plan November 15, 2002	NOR024847	NOR024853
Merrill Lynch Report 8/19/02	NOR026460	NOR026463
Morgan Stanley Report 11/11/02	NOR026676	NOR026685
Merrill Lynch Report 10/23/01	NOR029703	NOR029726
Email, Re: FW: NorthWestern Corp. Rating Lowered, Still on Credit Watch Negative	NOR034685	NOR034688
Standard and Poor's - Your Connection to Standard & Poor's Utilities Rating Team, 05/23/2003	NOR034840	NOR034843
Morgan Stanley Report 9/12/02	NOR035348	NOR035355
Morgan Stanley Report 12/16/02	NOR035356	NOR035361
NorthWestern downgraded by Fitch Ratings Dated 1/16/03	NOR035384	NOR35385
Email, Re: Audit Management Response, October 7, 2002	NOR036614	NOR036616
Joint Application of Montana Power Company and NorthWestern Corporation	NOR044299	NOR044695
Joint Application of Montana Power Company and NorthWestern Corporation - Supplemental Filing	NOR044696	NOR044743
Joint Application of the Montana Power Company and NorthWestern Corporation, Supplemental Filing, August 27, 2001	NOR044696	NOR044743
Transcript of Proceedings of Montana Power before the Public Service Commission of the State of Montana	NOR044802	NOR044855
Management Financial and Information Report Meeting	NOR044943	NOR044943
Morgan Stanley Report 4/25/02	NOR053319	NOR053328
Morgan Stanley Report 5/17/02	NOR053430	NOR053433
Morgan Stanley Report 6/12/02	NOR053449	NOR053475
Memo to NW Board from Orme Re: Financing and IR Plans dated June 17, 2002	NOR053464	NOR053469
Memo, Re: Update on NorthWestern Energy Integration, July 30, 2002	NOR053568	NOR053571
Memo, Re: 2003 Strategic, Operating and Finance Plan Status/ Critical Assessments-10/16/02	NOR054382	NOR054382
Board of Directors Meeting 11/5-6/02	NOR054667	NOR054656
Bear Stearns - Presentation to NorthWestern Regarding Financial Alternatives (11/6/02)	NOR054683	NOR054710
Email, Re: Bulletin, NorthWestern Corp. Ratings Remain Unchanged	NOR055297	NOR055299
Memo, Re: Financing Plans & Considerations, 5/28/02	NOR056238	NOR056245
Email, Re: Management Financial and Information Report For the Month Ended, June 30, 2002	NOR057365	NOR057366
Bear Stearns - Presentation to NorthWestern Regarding Financial Alternatives (9/20/02)	NOR057784	NOR057792
Bear Stearns - Presentation to NorthWestern Board of Directors (9/23/02)	NOR057816	NOR057826
Standard and Poor's - Your Connection to Standard & Poor's Utilities Rating Team, 12/30/02	NOR058328	NOR058332
NorthWestern Credit Analysis from Fitch February 6, 2003	NOR058336	NOR058339
Second Quarter Earning Conference Call, 8/8/2002	NOR063168	NOR063215
Memo, Re: NOR Financing Status and Recommendations - 12-7-02	NOR063739	NOR063739
Memo, Re: NorthWestern Liquidity Update-12/08/02	NOR063891	NOR063892
Memo, Re: Revised Proposed 2003 Operating Plan, October 30, 2002	NOR066177	NOR006219
Email, Re: Flat Structure	NOR066670	NOR066671
Memo, Re: "Going Flat" Resolution, 07/31/02	NOR066673	NOR066673
Email, Re: NOR Audit Committee-Memo, November 12, 2002	NOR066801	NOR066801
Re: Disclosure Controls and Procedures required by Sarbanes Oxley Act of 2002	NOR067162	NOR067172
Moody's Investment Service - Global Credit Research Rating Action, 08/01/02	NOR076208	NOR076209
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Email, Re: Moody's Cuts NorthWestern Corp. Senior Secured Debt	NOR101406	NOR101408
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A.G. Edwards Report 3/19/02	NOR101965	NOR101980

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Merrill Lynch Report 10/11/01	NOR101981	NOR101985
Merrill Lynch Report 5/1/02	NOR101990	NOR101993
Merrill Lynch Report 5/17/02	NOR101994	NOR101995
Merrill Lynch Report 11/6/01	NOR102018	NOR102021
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Email, Re: First quarter earning release, April 16, 2002	NOR131551	NOR131553
Email, Re: Advancement, July 22, 2002	NOR134266	NOR134266
Bear Stearns and NorthWestern Finance Due Diligence Meeting Presentation dated August 2002.	NOR134841	NOR134923
Email, Re: Comment on Daily Flash Report, June 5, 2002	NOR138256	NOR138256
Email, Re: Update on Montana Power Acquisition	NOR142389	NOR142392
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Bear Stearns - Presentation to NorthWestern Regarding Financial Alternatives (9/27/02)	NOR255870	NOR255876
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Timeline of Key Events (ultimately) leading to 12/31/02 Reserve	NOR306791	NOR306843
Memo: Expanets Sub-Committee, Preliminary Report 3rd 02	NOR306825	NOR30687
Email, Re: NCS Audit update, July 31, 2002	NOR317466	NOR317467
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American Appraisal Associates Fair Value Valuation as of October 1, 2002 of Expanets and Subsidiaries Reporting Unit Englewood, CO	NOR364556	NOR364612
American Appraisal Associates Fair Value Valuation as of October 1, 2002 of Blue Dot Services, Inc and Subsidiaries Reporting Unit Sioux Falls, SD	NOR364662	NOR364719
Memo, Re: Expanets Sub-committee Comments, March 25, 2003	NOR365792	NOR365797
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Email, Re: Draft Language on Billing Adjustments, August 14, 2002	NOR405358	NOR405367
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Audit Report for NorthWestern Communication Solutions, October 25, 2002	NOR417960	NOR417985
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Email, Re: NOR Management Report-For the Month Ended 5-31-02	NOR458098	NOR458119
Memo, Re: Notice of Termination of Employment, May 7, 2003	NOR459163	NOR459164
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Email, Re: IT Issues, June 25, 2002	NOR495325	NOR495326
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Comprehensive Employment Agreement & Equity Participation Program for Richard R. Hylland	NOR519829	NOR519876
Index of Individuals that were interviewed	NOR519878	NOR519879
Declaration to Paul Hastings Janofsky & Walker LLP Merle Lewis	NOR519880	NOR519882
Declaration to Paul Hastings Janofsky & Walker LLP of Richard Hylland	NOR519883	NOR519887
Declaration to Paul Hastings Janofsky & Walker LLP of Kipp Orme	NOR519888	NOR519891
Declaration to Paul Hastings Janofsky & Walker LLP of Kurt Whitesel	NOR519892	NOR519898
Declaration to Paul Hastings Janofsky & Walker LLP of Michael Nieman	NOR519899	NOR519902
Declaration to Paul Hastings Janofsky & Walker LLP of Michael Hanson	NOR519904	NOR519905
Declaration to Paul Hastings Janofsky & Walker LLP of David Monaghan	NOR519907	NOR519908
Declaration to Paul Hastings Janofsky & Walker LLP of John Charters	NOR519910	NOR519912
Declaration to Paul Hastings Janofsky & Walker LLP of Richard Fresia	NOR519914	NOR519976
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Summary of Management Financial & Information Reports (from 12/31/01 - 1/30/02, 3/17/2003)	NOR520111	NOR520118
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Expanets Presentation - Expert Status Update	NOR520559	NOR520787
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Report prepared by controller of Expanets detailing the status of accruals on Expanets balance sheet as of 3/31/02	NOR520935	NOR520936
Expanets- Executive Management Financial Statement	NOR520938	NOR521018
Email, Re: Cash Receipt Process, June 11, 2002	NOR521019	NOR521020
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NorthWestern EBITDA Summary	NOR521236	NOR521238
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Presentation to Credit Committee related to Acquisition, 08/07/2001	CSFB011722	CSFB011734
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Memo, Re: NorthWestern Corporation \$600MM acquisition facility and \$400MM working capital Facility	CSFB011785	CSFB011789
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Presentation to The Investment Banking Committee - 3M common shares public offering, 10/08/2001	CSFB012110	CSFB012134
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Minutes of Initial Meeting of Board of Directors of NorthWestern Energy, April 22, 2002	DT006446	DT006448
Condensed Consolidated Financial Statements of NorthWestern Corp by Deloitte & Touche LLP	DT006600	DT006606
NorthWestern Corp Form of Compliance Certificate Q3 2002	DT007340	DT007347
10Q, Period 3/31/2002	N/A	N/A
10Q, Period 6/30/02	N/A	N/A
8-K, 5/1/2002	N/A	N/A
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Concordance and Condensed Transcript (Mary Lewicki 5/2/07)	N/A	N/A
Consent of Richard R. Hylland	N/A	N/A
Deposition of Bart Thielar	N/A	N/A
Deposition of Drook, Gary, April 25, 2007	N/A	N/A
Deposition of Eric Jacobsen	N/A	N/A
Deposition of Ernie Kindt	N/A	N/A
Deposition of Ernie Kindt	N/A	N/A
Deposition of Kendall Kiewer	N/A	N/A
Deposition of Kipp Orme, 4/12/2007	N/A	N/A
Deposition of Merle Lewis	N/A	N/A

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Description	Beginning Bates #	Ending Bates #
Deposition of Michael J. Hanson	N/A	N/A
Deposition of Michael Nieman	N/A	N/A
Deposition of Rich Fresia, 4/30/2007	N/A	N/A
Deposition of Richard Hylland, 5/2/2007	N/A	N/A
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Duff & Phelps Credit Ratings - Credit Analysis - 2/3/1999	N/A	N/A
Duff & Phelps Credit Ratings - Credit Analysis - 6/2/1999	N/A	N/A
Duff & Phelps Credit Ratings - Credit Analysis - 8/10/1998	N/A	N/A
Duff & Phelps Credit Ratings - Credit Analysis - 9/10/1999	N/A	N/A
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Expert Report of Robert W. Berliner, CPA, CFE	N/A	N/A
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FT.com Article: US GDP weaker than expected 7/31/02	N/A	N/A
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Market Watch Article: Q2 GDP Left unrevised at 1.1% Growth 8/29/02	N/A	N/A
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Moody's Investors Service - History & Debt - 6/7/2000	N/A	N/A
Moody's Investors Service - History & Debt 10/23/1998	N/A	N/A
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NorthWestern Corp Organizational Structure	N/A	N/A
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NorthWestern Corporation 2004-2008 Financial Projections	N/A	N/A
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NorthWestern Corporation Form 10-Q (3/31/99) Filed 5/17/99	N/A	N/A

Exhibit 1
Sources Reviewed

Description	Beginning Bates #	Ending Bates #
NorthWestern Corporation Form 10-Q (6/30/00) Filed 8/14/00	N/A	N/A
NorthWestern Corporation Form 10-Q (6/30/01) Filed 8/14/01	N/A	N/A
NorthWestern Corporation Form 10-Q (6/30/02) Filed 8/14/02	N/A	N/A
NorthWestern Corporation Form 10-Q (6/30/99) Filed 8/16/99	N/A	N/A
NorthWestern Corporation Form 10-Q (9/30/00) Filed 11/13/00	N/A	N/A
NorthWestern Corporation Form 10-Q (9/30/01) Filed 11/13/01	N/A	N/A
NorthWestern Corporation Form 10-Q (9/30/02) Filed 11/14/02	N/A	N/A
NorthWestern Corporation Form 10-Q (9/30/99) Filed 11/15/99	N/A	N/A
NorthWestern Corporation Form 10-Q/A (3/31/02) Filed 4/15/03	N/A	N/A
NorthWestern Corporation Form 10-Q/A (3/31/02) Filed 9/20/02	N/A	N/A
NorthWestern Corporation Form 10-Q/A (6/30/00) Filed 4/15/03	N/A	N/A
NorthWestern Corporation Form 10-Q/A (6/30/00) Filed 9/20/02	N/A	N/A
NorthWestern Corporation Form 10-Q/A (9/30/02) Filed 11/19/02	N/A	N/A
NorthWestern Corporation Form 10-Q/A (9/30/02) Filed 4/15/03	N/A	N/A
NorthWestern Corporation Form 8-K (10/8/02)	N/A	N/A
NorthWestern Corps \$150MM Notes Rated 'A' by Fitch - 9/22/2000	N/A	N/A
NorthWestern Corps on Rating Watch Neg by Fitch on Acq News - 10/2/2000	N/A	N/A
NorthWestern Corps. Placed on Rating Watch negative by Fitch Ratings - 8/1/2002	N/A	N/A
NorthWestern Corps's \$720 MM Sr Notes Rated 'BBB+' by Fitch Ratings - 3/8/2002	N/A	N/A
NorthWestern Energy LLC Form 10-K for the period December 31, 2001	N/A	N/A
NorthWestern Energy vs. Montana Power Company	N/A	N/A
NorthWestern Press Release - 9-15-03	N/A	N/A
Notice of Deposition of NorthWestern Corp. Pursuant to Rule 30(b)(6)	N/A	N/A
Notice of Service of Subpoena (Rick Fresia)	N/A	N/A
Objections and Responses of Defendant NorthWestern Corporation to Plaintiff's First Request for Admissions	N/A	N/A
Order Instituting Cease-And-Desist Proceedings, Making Findings And Imposing a Ceased-And-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934	N/A	N/A
PaineWebber Report 1/12/00	N/A	N/A
PaineWebber Report 1/15/99	N/A	N/A
PaineWebber Report 10/16/00	N/A	N/A
PaineWebber Report 11/16/98	N/A	N/A
PaineWebber Report 11/23/99	N/A	N/A
PaineWebber Report 4/26/00	N/A	N/A
PaineWebber Report 8/3/00	N/A	N/A
PaineWebber Report 8/6/99	N/A	N/A
Press Release for NorthWestern Corp dated 1/18/02	N/A	N/A
Press Release for NorthWestern Corp dated 1/27/03	N/A	N/A
Press Release for NorthWestern Corp dated 10/12/01	N/A	N/A
Press Release for NorthWestern Corp dated 10/18/02	N/A	N/A
Press Release for NorthWestern Corp dated 10/2/02	N/A	N/A
Press Release for NorthWestern Corp dated 10/21/02	N/A	N/A
Press Release for NorthWestern Corp dated 10/22/02	N/A	N/A
Press Release for NorthWestern Corp dated 10/30/00	N/A	N/A
Press Release for NorthWestern Corp dated 11/1/00	N/A	N/A
Press Release for NorthWestern Corp dated 11/26/02	N/A	N/A
Press Release for NorthWestern Corp dated 11/6/01	N/A	N/A
Press Release for NorthWestern Corp dated 11/7/01	N/A	N/A
Press Release for NorthWestern Corp dated 11/7/02	N/A	N/A
Press Release for NorthWestern Corp dated 11/8/02	N/A	N/A
Press Release for NorthWestern Corp dated 12/13/02	N/A	N/A
Press Release for NorthWestern Corp dated 12/18/02	N/A	N/A
Press Release for NorthWestern Corp dated 2/10/03	N/A	N/A
Press Release for NorthWestern Corp dated 2/19/03	N/A	N/A
Press Release for NorthWestern Corp dated 2/2/03	N/A	N/A
Press Release for NorthWestern Corp dated 2/6/03	N/A	N/A
Press Release for NorthWestern Corp dated 2/7/02	N/A	N/A
Press Release for NorthWestern Corp dated 2/8/01	N/A	N/A
Press Release for NorthWestern Corp dated 4/1/03	N/A	N/A
Press Release for NorthWestern Corp dated 4/15/02	N/A	N/A
Press Release for NorthWestern Corp dated 4/16/03	N/A	N/A
Press Release for NorthWestern Corp dated 4/30/02	N/A	N/A
Press Release for NorthWestern Corp dated 5/1/02	N/A	N/A
Press Release for NorthWestern Corp dated 5/15/03	N/A	N/A
Press Release for NorthWestern Corp dated 5/16/02	N/A	N/A
Press Release for NorthWestern Corp dated 5/17/02	N/A	N/A
Press Release for NorthWestern Corp dated 5/23/03	N/A	N/A
Press Release for NorthWestern Corp dated 5/3/00	N/A	N/A
Press Release for NorthWestern Corp dated 5/3/01	N/A	N/A
Press Release for NorthWestern Corp dated 7/1/02	N/A	N/A
Press Release for NorthWestern Corp dated 7/19/01	N/A	N/A
Press Release for NorthWestern Corp dated 7/23/02	N/A	N/A
Press Release for NorthWestern Corp dated 8/14/03	N/A	N/A
Press Release for NorthWestern Corp dated 8/2/00	N/A	N/A
Press Release for NorthWestern Corp dated 8/2/01	N/A	N/A
Press Release for NorthWestern Corp dated 8/8/02	N/A	N/A
Press Release for NorthWestern Corp dated 9/15/03	N/A	N/A
Press Release: NorthWestern and PPL Montana Reach Agreement in Principle to Settle Litigation Claims, May 4, 2005	N/A	N/A
Press Release: NorthWestern Lowers Guidance for Estimated 2002 Results, 12/13/02	N/A	N/A

Exhibit 1
Sources Reviewed

Description	Beginning Bates #	Ending Bates #
Press Release: Fitch Affs NorthWestern Corp's FMBs 'A+', Sr Unsec 'A', 8/28/2000	N/A	N/A
Press Release: Fitch Downgrs NorthWestern Corp. & Places Rtg on Watch Neg, 8/4/03	N/A	N/A
Press Release: Fitch Downgrs NorthWestern Corp. Unsec'd Debt to 'DD'; on Chapter 11 Filing, 9/15/03	N/A	N/A
Press Release: Fitch Dwngr NorthWestern Corp Sr Sec To 'BBB+'; Outlook Negative, 10/14/02	N/A	N/A
Press Release: Fitch Ratings Downgrades Cornerstone Propane Partners, L.P. to 'D', 8/6/02	N/A	N/A
Press Release: Fitch Ratings Lowers NorthWestern's Senior Unsec to 'B+'; Rating Outlook Negative, 4/23/03	N/A	N/A
Press Release: Fitch Ratings Raises NorthWestern's Secured Rating to 'CCC', 9/29/03	N/A	N/A
Press Release: Moody's assigns Baa2 Rating to NorthWestern Corporation's Planned \$700 Million Note Offering, (3/5/02)	N/A	N/A
Press Release: Moody's Confirms Credit ratings of NorthWestern Corporation following announced strategic business alliance, 4/3/00	N/A	N/A
Press Release: Moody's Downgrades NorthWestern Debt Rating Two Levels to Baa3, 12/20/03	N/A	N/A
Press Release: Moody's Downgrades Ratings of NorthWestern Corporation (Sr. Sec. To B2); Rating Outlook is Negative, 4/25/03	N/A	N/A
Press Release: Moody's Liquidity Risk Assessment, 6/12/02	N/A	N/A
Press Release: NorthWestern Corp On Rating Watch Neg by Fitch on Acq News, 10/2/00	N/A	N/A
Press Release: NorthWestern Corp. \$150MM notes rated 'A' by Fitch, 9/22/00	N/A	N/A
Press Release: NorthWestern Corp. Placed On Rating Watch Negative By Fitch Ratings, 8/1/02	N/A	N/A
Press Release: NorthWestern Corporation Completes Reorganization of Montana Utility Operations, 11/20/02	N/A	N/A
Press Release: NorthWestern Corp's \$720MM Sr Notes Rated 'BBB+' By Fitch Ratings, 3/8/02	N/A	N/A
Press Release: NorthWestern Downgraded by Fitch Ratings; Rating Outlook Negative, (1/16/03)	N/A	N/A
Press Release: NorthWestern Enters into \$390 Million Secured Credit Facility, 12/18/02	N/A	N/A
Press Release: NorthWestern Falls After S&P Cuts Debt to Junk Status, 12/31/02	N/A	N/A
Press Release: NorthWestern Preferred Stock Rating Lowered to 'C', Still on Watch Negative, 5/23/03	N/A	N/A
Press Release: Standard And Poors Research update on NorthWestern Corp., 12/30/02	N/A	N/A
Press Release: Standard And Poors Research update on NorthWestern Corp., 5/23/03	N/A	N/A
Rating Action: Moody's Downgrades Rating's of NorthWestern Corporation (Sr. Sec. To Baa3); Continues to Review Ratings for Possible Further Downgrade, 12/20/02	N/A	N/A
RBC Capital Markets Report 2/18/03	N/A	N/A
RBC Capital Markets Report 2/20/03	N/A	N/A
RBC Capital Markets Report 4/1/03	N/A	N/A
RBC Capital Markets Report 4/17/03	N/A	N/A
RBC Capital Markets Report 5/27/03	N/A	N/A
RBC Capital Markets Report 8/25/03	N/A	N/A
RBC Capital Markets Report 9/15/03	N/A	N/A
RBC Capital Markets Report 9/16/03	N/A	N/A
Responses and objections of NorthWestern Corporation to plaintiffs' Magten Asset Management Corporation and Law Debenture Trust Company of New York's first set of interrogatories for defendant NorthWestern Corporation	N/A	N/A
S&P Corporate Ratings Criteria Report - 2002	N/A	N/A
S&P Corporate Ratings Criteria Report - 2006	N/A	N/A
Salomon smith Barney Industry Note utilities, 10/8/02	N/A	N/A
Salomon Smith Barney, Electric Utilities Weekly Energy Wire, 11/26/02	N/A	N/A
Salomon Smith Barney, Multi-Company Note, Electric Utilities, 10/18/02	N/A	N/A
SEC vs. Merle Lewis	N/A	N/A
Second Amended and Restated Disclosure statement Pursuant to Section 1125 of the Bankruptcy Code for the Plan of Reorganization of the Debtor	N/A	N/A
Standard and Poor's Bond Index	N/A	N/A
Stipulated Protective Order	N/A	N/A
Stipulated Protective Order of B. Thielbar, June 14, 2007	N/A	N/A
Stipulated Protective Order of Merle Lewis, June 20, 2007	N/A	N/A
Stipulated Protective Order, Michael Hanson, June 27, 2007	N/A	N/A
Structure of NorthWestern: Post Montana Power Acquisition, Prior to Going Flat	N/A	N/A
Subpoena in a Civil Case for Gary Drook	N/A	N/A
UBS Warburg Report 11/7/02	N/A	N/A
UBS Warburg Report 12/15/00	N/A	N/A
UBS Warburg Report 2/8/01	N/A	N/A
UBS Warburg Report 4/17/02	N/A	N/A
UBS Warburg Report 4/30/02	N/A	N/A
UBS Warburg Report 7/18/02	N/A	N/A
UBS Warburg Report 9/4/02	N/A	N/A
UBS Warburg Report, 5/20/02	N/A	N/A



Paul A. Marcus

Exhibit 2

Director

P 617 226 5546

F 617 226 5555

pmarcus@huronconsultinggroup.com

470 Atlantic Avenue, 14th Floor
Boston, Massachusetts 02210

Curriculum Vitae

Paul has over 20 years of experience in the areas of advising clients in commercial disputes or litigation, corporate finance, security valuation, investment decision making, performing independent fundamental research, strategic planning and financial analysis, raising and providing capital, originating, structuring, and negotiating complex financial transactions. Paul has provided services in a wide array of industries including technology (hardware and software), biotechnology, manufacturing, distribution, professional services, utilities, telecommunications, and textiles.

Professional experience

Prior to joining Huron, Paul was a Principal in the Dispute and Investigative Advisory Practice of Tofias PC and a Senior Expert at the Michel/Shaked Group. In prior positions, he was a Managing Director and co-founder of Corporate Finance Advisors, Inc. and a Vice President in the Corporate Finance Group at Shawmut Bank where he completed numerous engagements in the areas of mergers and acquisitions, leveraged buyouts, private placements, financial advisory services and valuations. Before his corporate finance role at Shawmut, Paul was the Director of Finance of a start-up business, an Investment Officer with Marlborough Capital Advisors (a mezzanine fund), a Vice President in the Project Finance Group at Shawmut Bank and an Assistant Vice President in the Utilities/Telecommunications Group at Bank of America.

Representative litigation experience

- Retained as expert to provide financial analysis, valuation of securities and the calculation of damages. Expert Report Submission and Trial Testimony. (First Marblehead Corp. v. Gregory J. House, United States District Court, District of Massachusetts, Civil Action 04-11263PBS).
- Retained as expert to evaluate the sales process undertaken by SSA, and to assess if the methodologies used to determine the fairness of the transaction in the fairness opinion provided by the external investment banker were objective and provided a reasonable basis for the Board to conclude that the acquisition price was a fair price. Expert Report Submission. (Steven Fisch On Behalf of Himself and All Others Similarly Situated v. SSA Global Technologies, Inc., Certain Individuals, Cerberus Capital Management, L.P. and General Atlantic LLC, Circuit Court of Cook County, Illinois Case No. 06-CH-10636).
- Retained as expert to provide analysis of the loan underwriting practices of Amresco, a non-bank finance company that was engaged in the securitized lending business. The analysis included among other things a review of the underwriting process, the actual loans that were unwritten and their adherence to representations made by Amresco. The analysis also included a review of the lending pool's characteristics and performance including default rates. Expert Report Submission, Deposition Testimony and Trial Testimony. (Neuro-Rehab Associates, Inc. and Neuro-Rehab Associates v. Amresco Commercial Finance, LLC and First Union Trust Company, N.A. as Owner Trustee of the ACLC Business Loan Receivables Trust 1999-2, United States District Court, District of Massachusetts, Civil Action 1:05-cv-12338).
- Retained as expert to provide analysis on business operations and financing strategy, uses of capital, business valuation and damages. Expert Report Submission. (Hutchison, Inc. et al v. KPMG LLP and Gary Powell, District Court, Adams County, Colorado).
- Retained as expert to provide analysis on business valuation and damages. Expert Report Submission and Deposition Testimony. (Wayne J. Archambo v. Boston Partners Asset Management L.P., Boston Partners, Inc. et al., Commonwealth of Massachusetts Superior Court Docket No. 03-00277).



- Retained as expert to provide analysis on business valuation, mergers and acquisitions, and damages. Provided rebuttal report critiquing two opposing experts' reports. Expert Report Submission, Rebuttal Report Submission, and Deposition Testimony. (In re marchFirst, Inc. et al., Debtors. - Andrew J. Maxwell, not Individually, but as Chapter 7 Trustee for the bankruptcy estates of marchFirst, Inc. v. KPMG, LLP, United States Bankruptcy Court for the Northern District of Illinois, Eastern Division).
- Retained as expert to provide analysis on securities valuation, mergers and acquisitions, and damages. Provided rebuttal report critiquing opposing expert's report. Expert Report Submission, Rebuttal Report Submission and Deposition Testimony. (In re BankAmerica Corp. Securities Litigation, United States District Court, Eastern District of Missouri, MDL Docket No. 1264).
- Retained as expert to provide analysis on business valuation and damages relating to the value of an internet division spun-off to the Chairman of Penton Media. Expert Report Submission and Deposition Testimony. (Ariff Alidina, et al. v. Penton Media, Inc., et al., United States District Court, Southern District of New York, Case No. 98-CV-8474).
- Retained as expert to provided analysis on business combinations, valuation, mergers and acquisitions, and damages. Expert Report Submission. (In re Carleton Woolen Mills, Inc. - P.J. Perrino, Trustee v. John R. Corrin, et al., United States Bankruptcy Court, District of Maine, Case No. 00-10214 (Adv. No. 01-1041)).
- Retained as expert to provide analysis of a sale transaction and related contractual dispute, valuation, and damages of a Biodiesel Fuel business. Settled Prior to Expert Report Submission. (Gene J. Gebolys v. Gulf Oil Limited Partnership and World Energy Alternatives, LLC, Commonwealth of Massachusetts Superior Court, Civil Action No. 06-3179-BLS2).
- Retained as expert to provide analysis on valuation, deepening insolvency, acquisition strategy, Board of Director's behavior, financing strategy and damages. Settled Prior to Expert Report Submission. (Styling Technology Corporation v. Jay Ozer, Arthur Andersen LLP et al., Superior Court of the State of Arizona, County of Maricopa, Case No. CV2002-016836).
- Retained as expert to determine if the fiduciaries of the Genuity Savings Plan 401(k) violated the ERISA by buying and holding Genuity's stock in the Company Stock Plan during a time of greatly diminished prospects for the Company and to determine losses, if necessary. Settled Prior to Expert Report Submission. (Genuity Savings Plan No. 001: DOL File No. 04-37839, U.S. Department of Labor, Employee Benefits Security Administration).
- Retained as expert to provided analysis on the allocation of membership interests in an LLC based on new investments. Expert Report Submission. (In re Edwin A. McCabe, Debtor – Joseph Braunstein, Chapter 7 Trustee of Edwin A. McCabe, Plaintiff v. George Panagiotou, GEDCO, LLC, Defendants, United States District Court for the District of Massachusetts).
- Retained as consulting expert to provided analysis of business valuation, leveraged ESOP's and potential damages. (Undisclosed Electronics Company. Employee Stock Ownership Plan, U.S. Department of Labor, Employee Benefits Security Administration).
- Retained as a consulting expert by John Hancock Financial Services, Inc. to develop a recovery strategy, analyze potential net worth covenant defaults under an existing bondholder agreement and establish the zone of insolvency of a pharmaceutical company that improperly accounted for a significant contingent liability. The analysis and advice contributed to a favorable settlement, which included the repayment of nearly all of the loan, interest and expenses.
- Provided analysis on deepening insolvency, valuation and damages as a result of restated accounting statements. (Leasing Solutions, Inc. - Paul Renner v. Hal J. Krauter, et al., Paul Renner v. Deloitte & Touche, LLP, Superior Court of the State of California, County of Santa Clara, Case No. 1-02-CV-807186).
- Provided analysis of wireless telecommunication industry, identified major industry trends and supported the commercial reasonableness of Sprint's contractual relationships with its iPCS affiliate. Case settled prior to any submissions. (Sprint Corporation v. Official Committee of Unsecured Creditors of iPCS, Inc., United States District Court, Northern District of Georgia, Case No. 03-CV-2815).
- Provided analysis relating to an asbestos trust structure and to determine the financial health and value of HAL in terms of HAL's proposed bankruptcy filing. HAL's intent was to file for bankruptcy and as part of the restructuring establish a separate trust to handle asbestos claims. The clients (insurance companies) were concerned that HAL would not contribute a fair share of its assets to the trust. Thus, the insurance companies would carry a greater burden of settling the asbestos claims. (In re Halliburton).
- Provided analysis on valuation and determined damages resulting from Shell Oil's pricing practices, its method for setting lease rates to individual gas stations and the resulting loss of business value. (In re Shell Oil Products Co. Dealer Franchisees Litigation, United States District Court for the District of Massachusetts).



- Provided analysis on valuation, the potential effects on the exchange ratio of a merger in which material information was withheld, and damages. Provided Testimony at Mediation. (William F. Smalley, Jr. (a shareholder of Ecoscience Corporation) v. Michael DeGiglio et al., In the Court of Chancery of the State of Delaware in and for New Castle County, Civil Action No. 18733NC).
- Provided analysis of valuation and damages resulting from the sale and subsequent repurchase of two businesses to a roll-up company where material information was withheld from the selling parties. (TTR Enterprises, Timm T. Runnion, et al. v. Deloitte & Touche LLP, Christopher P. Massey, et al., American Arbitration Association).
- Retained as expert to provide valuation of a 54.407% interest in Undisclosed Real Estate, Inc., a 97.4% Limited Partner Interest in the Undisclosed Limited Partnership, and a 1% General Partner Interest in the Undisclosed Limited Partnership. Determined appropriate marketability and minority discounts. Expert Report Submission. (Estate of Undisclosed v. Commissioner, United States Tax Court, Docket No. 2738-03).
- Prepared rebuttal report as consulting expert critiquing the plaintiff's assessment of lost profit damages. The analysis resulted in the plaintiff's expert report being disqualified in a Daubert motion. (Steward Machine Company v. White Oak Corporation, et al., United States District Court for the District of Connecticut).
- Retained as expert to provide analysis on damages (lost profit and disgorgement of profits) related to the defection of certain brokers. Expert Report submitted to Attorneys but settled prior to Arbitration Hearing. (Merrill Lynch, Pierce, Fenner & Smith Incorporated v. Thomas G. Bishop et al. and Morgan Stanley DW, Inc., National Association of Securities Dealers, Inc. Arbitration, NASD No. 04-07906).
- Retained as expert to provide analysis on damages (lost profit and disgorgement of profits) related to the defection of certain brokers. Settled Prior to Expert Report Submission. (Morgan Stanley DW, Inc. v. Robert Clayton and Wachovia Securities, LLC, National Association of Securities Dealers, Inc. Arbitration, NASD No. 04-04875).
- Retained as consulting expert to provide analysis on mergers and acquisitions, valuation and damages to a minority shareholder resulting from fraudulent actions by the majority shareholder. (Robert J. Zammito et al. v. Harry W. Healey et al., United States District Court for the district of Massachusetts, Civil Action No: 04-10161-REK).

Representative corporate finance experience

Mergers & Acquisitions

- Originated transaction, performed due diligence, drafted information memorandum, led the negotiations, advised seller on all aspects of structure and closing for the exclusive sale of Agility Incorporated.
- Performed due diligence, drafted information memorandum, led the negotiations, and advised seller on all aspects of structure and closing for the exclusive sale of a division of Mercury Computer Systems, Inc.
- Originated transaction, advised on valuation, assisted in the negotiations, and advised on all aspects of structure and closing for the exclusive sale of Medical & Technical Research.
- Performed due diligence, drafted information memorandum, and assisted in structuring and negotiations for the leveraged recapitalization of Duro Industries, Inc.
- Originated transaction, performed due diligence, drafted information memorandum, led the negotiations, and advised seller on all aspects of structure and closing for the exclusive sale of Remanco International, Inc.
- Performed due diligence, analyzed various aspects of a potential acquisition including valuation model, proposed price and structure, and advised on the letter of intent and closing document negotiations for Charles River Associates, Inc.
- Performed due diligence, drafted information memorandum, assisted in all negotiations, and was responsible for all aspects of the closing for the exclusive sale of Research Biochemicals, Inc.
- Performed buyer due diligence, analyzed all aspects of a potential acquisition, and proposed price and structure for Inc. Magazine.
- Performed due diligence, drafted information memorandum, assisted in all negotiations, and was responsible for all aspects of the closing of the exclusive sale of Neuro Imaging Technologies, LLC.
- Prepared information memorandum and assisted in the negotiations of the exclusive sale of ESP Lock, Inc.
- Performed due diligence, drafted information memorandum, contacted senior debt investors, negotiated senior financing and factoring agreements, and assisted in subordinated debt and equity structuring and negotiations of the management buyout of Converting Acquisition Corp.
- Performed due diligence, assisted in drafting information memorandum and in advising the seller on all aspects of structure and closing of the exclusive sale of AgileVision, LLC.
- Assisted in negotiations on price and terms of acquisition, drafted information memorandum, advised on structure, and contacted potential financing sources of the management buyout of Hatfield Acquisition Corp.



- Advised on valuation, assisted in the negotiations, and assisted in all aspects of structure and closing for the exclusive sale of Custom Communications Partners.
- Assisted in all aspects of structure, valuation and negotiation strategy of the exclusive sale of Planet Interactive, Inc.
- Analyzed a potential acquisition candidate, prepared proforma financial projections, and analyzed potential deal structures for Numark Industries.
- Advised on valuation, assisted in the negotiations, and advised on all aspects of structure and closing for the exclusive sale of Larry Miller Productions.
- Performed due diligence, drafted information memorandum, and advised seller on all aspects of structure and closing for the exclusive sale of B2E Resource.
- Assisted in developing strategy and structure for a strategic acquisition and assisted in the negotiations for Tapetex, Inc.
- Performed due diligence, assisted in developing strategy and structure for a strategic acquisition, and assisted in the negotiations for Shipley Company, LLC.
- Performed due diligence on acquisition, provided advice on deal structure and corporate structure, and assisted in the negotiations for W.S.I., Inc.
- Assisted Board of Directors of Vitronics Corporation in evaluating a potential acquisition.
- Assisted in developing strategy and structure for a strategic acquisition and assisted in the negotiations for Tapetex, Inc.

Valuation

- Performed due diligence, valued business, and completed final report (3-years) for an ESOP valuation for Bissell Inc.
- Provided valuation services to the trust department of Fleet Bank regarding the fairness of a private stock sale.
- Performed due diligence, valued business, and completed the final report for an ESOP valuation for Cambridge Isotope Laboratories, Inc.
- Provided opinion to ESOP Trustees of Cambridge Isotope Laboratories, Inc. relating to a company tender offer, performed due diligence, valued business, and prepared the final report.
- Performed due diligence, valued business, and completed final report for a valuation for Monarch Brass & Copper, Corp.
- Performed due diligence, valued business, and completed final report (2-years) for an ESOP valuation for Adcole Corporation.
- Performed due diligence, valued business, and completed final report for a valuation of New England Pension Consultants.
- Performed due diligence and completed final report for a valuation of a non-compete agreement for the CEO of Proxima Therapeutics, Inc. related to the sale of Proxima to Cytac Corporation.

Financial Advisory

- Acted as financial advisor in restructuring senior debt and on a potential five-company (European) merger for Medical & Technical Research Associates, Inc.
- Provided financial analysis regarding the divestiture of certain non-core assets for a large private manufacturing concern.
- Provided strategic advice, including deal structure and valuation, regarding an equity investment for Inc. Magazine.
- Placed senior secured notes, negotiated term sheet, and was responsible for all aspects of closing for Mercury Computer Systems, Inc.
- Assisted in contacting investors and in negotiating a term sheet for the private placement of convertible preferred stock for Modern Age Books.
- Performed due diligence, contacted investors, and assisted in negotiations of an equity placement for Falcon Detection.
- Originated transaction and advised on structure and valuation of an equity investment in and joint venture with RCN Corp. for Boston Edison Company.
- Originated transaction and advised on all aspects of the initial public offering process, including underwriter interviewing and selection, company positioning, S1 drafting, and road show preparation for Beacon Power Corporation. Underwriting team included Salomon Smith Barney as lead manager and Bank of America Securities and CIBC as co-managers.



- Co-originated transaction and advised on all aspects of the initial public offering process, including underwriter interviewing and selection, company positioning, S1 drafting, and road show preparation for Evergreen Solar, Inc. Underwriting team included Bank of America Securities as lead manager and CIBC and First Albany as co-managers.
- Assisted Mercury Computer Systems, Inc. with all aspects of the underwriter selection process. Mercury's IPO was underwritten by Prudential and Cowen.
- Assisted in reviewing of strategic financial alternatives for Tekscan, Inc.
- Assisted in the review of strategic financial alternatives and advised on debt restructuring for Hydropress Environmental Services, Inc.
- Assisted in reviewing Guy Gannett Communications, Inc.'s strategic plan, prepared background information to provide fairness opinion on stock repurchase, and assisted in advising on senior debt offering.
- Reviewed Medical & Technical Research Associates, Inc.'s business strategy resulting in a business line closure.

Education and certification

- Master of Business Administration, University of Chicago
- Bachelor of Science, Biology, Tufts University
- Chartered Financial Analyst

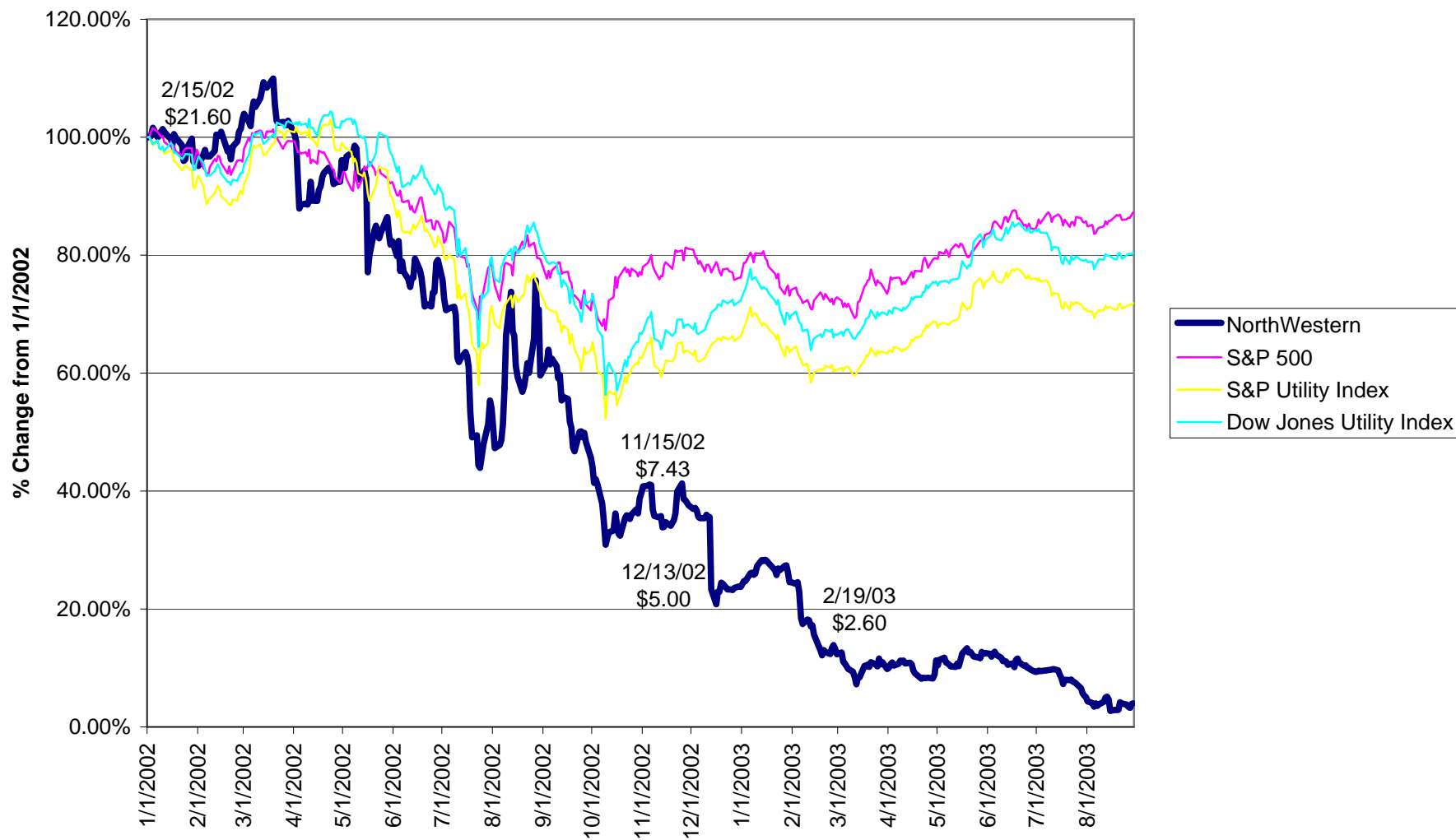
Professional associations

- American Bankruptcy Institute
- Boston Bar Association
- Chartered Financial Analyst Institute
- The Boston Security Analysts Society, Inc.

Civic involvement

- Former Member, Board of Directors, Jewish Community Centers of Greater Boston
- Past President, Leventhal-Sidman Jewish Community Center
- Former Member, Board of Directors, Leventhal-Sidman Jewish Community Center

Exhibit 3
NorthWestern Stock Price Percent Change Compared to S&P 500 and Utility Indices



Source: Bloomberg Stock Quote Data

Exhibit 4
Summary of NorthWestern Rating Affirmations and Downgrades

Date	Rating Agency	Senior Unsecured Debt [1]	Senior Secured Debt [2]	Note offering/ Senior Notes [3]	First Mortgage Bonds	Issuer Rating [4]
8/28/00	Fitch	A			A+	
9/22/00	Fitch	A		A	A+	
10/2/00	Fitch	A			A+	
12/7/01	Fitch	BBB+		BBB+	A-	BBB+
12/18/01	Fitch	BBB+		BBB+	A-	
1/28/02	Fitch	BBB+		BBB+	A-	
3/8/02	Fitch			BBB+		
8/1/02	Fitch	BBB+			A-	
10/14/02	Fitch	BBB		BBB	BBB+	BBB
12/13/02	Fitch	BBB			BBB+	
1/16/03	Fitch	BB+	BBB-			BB+
4/23/03	Fitch	B+	BB			B+
5/23/03	Fitch	B-	BB-			B-
8/4/03 [5]	Fitch	CCC	B-		B-	CCC
9/15/03 [6]	Fitch	DD	DDD		DDD	DD
9/29/03	Fitch	DD	CCC		CCC	
4/3/00	Moody's	A2	A1			A2
6/1/01	Moody's	A2			A1	A2
9/25/01	Moody's	A2			A1	A2
11/20/01	Moody's	Baa2	Baa1			Baa2
12/6/01	Moody's	Baa2			Baa1	Baa2
3/5/02	Moody's			Baa2		
8/1/02	Moody's	Baa2	Baa1			Baa2
12/20/02	Moody's	Ba1	Baa3			Ba1
4/25/03	Moody's	Caa1	B2			Caa1
10/2/00	S&P					A+
11/14/01	S&P	BBB	BBB+			BBB+
12/26/01	S&P	BBB	BBB+			BBB+
3/6/02	S&P			BBB+		
12/30/02	S&P	BB	BBB-		BBB-	BB+
12/31/02	S&P					BB+
4/21/03	S&P	CCC+	B+			B
5/23/03	S&P					B

Red text indicates that rating is below investment grade.

Notes:

Exhibit includes only some of NorthWestern Corp. debt and does not include Montana Power debt. Sources are press releases of the rating agency on the date unless otherwise noted.

[1] Senior unsecured debt relates to loans that are not secured by an underlying asset. The ranked loans for NorthWestern included a \$100 million loan as well as \$276.4 million of unsecured pollution control bonds among others. Note that some of the press releases do not disclose the composition of the senior unsecured debt and therefore the rating may include the senior notes as well. The source for the Fitch senior unsecured debt for 5/23/03 is from Bloomberg function CRPR.

[2] Senior secured debt relates to loans that are secured by an underlying asset. Note that some of the press releases do not disclose the composition of the senior secured debt. The rating may include the first mortgage bonds.

[3] The note offering includes the \$150 million rule 144A floating rate notes as well as the \$720 million notes.

[4] The issuer rating is the overall NorthWestern rating. The source for all the Fitch issuer ratings as well as the S&P issuer rating for 10/2/00 is from Bloomberg function CRPR.

[5] Fitch generally rated the pollution control bonds and the senior unsecured debt together, however on this date they were independently rated B- and CCC respectively. This chart only depicts the rating of the senior unsecured debt.

[6] Fitch generally rated the pollution control bonds and the senior unsecured debt together, however on this date they were independently rated DDD and DD respectively. This chart only depicts the rating of the senior unsecured debt.

Exhibit 5
Summary of NorthWestern's 2002 Original and Restated Financials

USD in Thousands

	1st Quarter 2002		2nd Quarter 2002		3rd Quarter 2002		4th Quarter 2002	FYE 2002
	Original [1]	Restated [2]	Original [3]	Restated [4]	Original [5]	Restated [6]	Calculated [7]	[8]
Income Statement								
OPERATING REVENUE	\$ 480,113	\$ 456,127	\$ 515,652	\$ 494,763	\$ 509,300	\$ 501,401	\$ 539,218	\$ 1,991,509
Cost of Sales	269,691	267,412	261,740	257,023	260,696	257,275	313,699	1,095,409
GROSS MARGIN	210,422	188,715	253,912	237,740	248,604	244,126	225,519	896,100
Operating Expenses								
Selling, general and administrative	148,150	150,467	172,831	188,090	170,950	188,485	244,584	771,626
Goodwill and other impairment charges	-	-	-	-	-	-	626,123	626,123
Depreciation	20,535	20,378	25,424	25,830	24,124	24,349	28,010	98,567
Amortization of goodwill and other intangibles	7,089	7,089	6,841	6,841	7,981	7,981	7,507	29,418
Restructuring charge	-	-	-	-	-	-	-	-
Total Operating Expenses	175,774	177,934	205,096	220,761	203,055	220,815	906,224	1,525,734
INCOME (LOSS) FROM CONTINUING OPS	34,648	10,781	48,816	16,979	45,549	23,311	(680,705)	(629,634)
Interest Income/(Expense)	(21,686)	(24,801)	(31,063)	(34,307)	(34,715)	(35,085)	(35,343)	(129,536)
Gain (Loss) on Debt extinguishment	-	-	-	-	-	-	-	-
Investment Income and Other	694	694	(2,497)	(2,497)	982	982	(4,561)	(5,382)
INCOME (LOSS) FROM CONTINUING OPS BEFORE INCOME TAXES AND MINORITY INTEREST	13,656	(13,326)	15,256	(19,825)	11,816	(10,792)	(720,609)	(764,552)
Benefit (Provision) for Income Taxes	(4,611)	5,729	(2,466)	11,018	2,804	11,367	(27,316)	798
INCOME (LOSS) FROM CONTINUING OPS BEFORE MINORITY INTERESTS	9,045	(7,597)	12,790	(8,807)	14,620	575	(747,925)	(763,754)
Minority Interest	14,914	14,914	8,100	-	-	-	-	14,914
INCOME (LOSS) FROM CONTINUING OPERATIONS	23,959	7,317	20,890	(8,807)	14,620	575	(747,925)	(748,840)
Discontinued Operations, Net of Taxes and Minority Interest	(40,000)	(40,000)	(5,086)	(5,086)	(55,937)	(55,937)	(632)	(101,655)
Extraordinary Item	(13,447)	(13,447)	-	-	-	-	-	(13,447)
NET INCOME	\$ (29,488)	\$ (46,130)	\$ 15,804	\$ (13,893)	\$ (41,317)	\$ (55,362)	\$ (748,557)	\$ (863,942)
Minority Interests on Preferred Securities of Subsidiary Trusts	(6,225)	(6,225)	(7,474)	(7,474)	(7,474)	(7,474)	(7,437)	(28,610)
Dividends on Preferred Stock	(48)	(48)	(48)	(48)	(295)	(295)	-	(391)
EARNINGS (LOSSES) ON COMMON STOCK	\$ (35,761)	\$ (52,403)	\$ 8,282	\$ (21,415)	\$ (49,086)	\$ (63,131)	\$ (755,994)	\$ (892,943)

[1] NorthWestern Form 10-Q for the period March 31, 2002 filed May 15, 2002.

[2] NorthWestern Form 10-Q/A for the period March 31, 2002 filed April 15, 2003.

[3] NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002.

[4] NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003.

[5] NorthWestern Form 10-Q for the period September 30, 2002 filed November 14, 2002.

[6] NorthWestern Form 10-Q/A for the period September 30, 2002 filed April 15, 2003.

[7] The fourth quarter 2002 amounts were calculated using the 10-K filed on April 15, 2003 which includes the restated amounts from Q1, Q2 and Q3 2002. Calculation performed is FYE 2002 less the Q1, Q2 and Q3 amounts.

[8] NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003.

Exhibit 5
Summary of NorthWestern's 2002 Original and Restated Financials

USD in Thousands

	1st Quarter 2002		2nd Quarter 2002		3rd Quarter 2002		4th Quarter 2002	FYE 2002
	Original [1]	Restated [2]	Original [3]	Restated [4]	Original [5]	Restated [6]	Calculated [7]	[8]
Balance Sheet								
ASSETS								
Current Assets:								
Cash and cash equivalents	\$ 120,518	\$ 120,518	\$ 79,717	\$ 79,717	\$ 75,214	\$ 75,214	\$ 45,569	\$ 45,569
Restricted cash	-	-	-	-	-	-	28,081	28,081
Accounts receivable, net	394,922	365,643	379,121	325,402	359,002	291,929	281,447	281,447
Inventories	69,342	71,621	75,058	82,054	85,791	92,936	86,650	86,650
Regulatory assets	-	-	-	-	-	-	15,430	15,430
Prepaid energy supply	-	-	-	-	-	-	-	-
Other	82,487	82,487	88,131	88,131	81,023	81,023	56,516	56,516
Assets held for sale	-	-	-	-	-	-	42,665	42,665
Current assets of discontinued operations	101,140	101,140	45,408	45,408	86,846	86,846	-	-
Total current assets	\$ 768,409	\$ 741,409	\$ 667,435	\$ 620,712	\$ 687,876	\$ 627,948	\$ 556,358	\$ 556,358
Property, plant and equipment, net	1,594,930	1,197,060	1,782,676	1,378,591	1,798,334	1,389,408	1,253,746	1,253,746
Goodwill and other intangible assets, net	852,811	1,252,906	660,360	1,052,355	656,554	1,048,549	400,095	400,095
Other intangible assets, net	-	-	-	-	-	-	118,144	118,144
Other:								
Investments	97,288	97,288	93,499	93,499	83,257	83,257	85,236	85,236
Regulatory assets	112,653	112,653	94,433	94,433	94,125	94,125	201,075	201,075
Deferred tax asset	14,334	14,334	12,825	12,825	20,570	20,570	-	-
Other assets	98,823	97,695	104,836	103,444	82,461	81,068	58,271	58,271
Noncurrent assets of discontinued operations	682,212	682,212	673,461	673,461	643,177	643,177	-	-
Total assets	\$ 4,221,460	\$ 4,195,557	\$ 4,089,525	\$ 4,029,320	\$ 4,066,354	\$ 3,988,102	\$ 2,672,925	\$ 2,672,925

[1] NorthWestern Form 10-Q for the period March 31, 2002 filed May 15, 2002.

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[3] NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002.

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Exhibit 5
Summary of NorthWestern's 2002 Original and Restated Financials

USD in Thousands

	1st Quarter 2002		2nd Quarter 2002		3rd Quarter 2002		4th Quarter 2002	FYE 2002
	Original [1]	Restated [2]	Original [3]	Restated [4]	Original [5]	Restated [6]	Calculated [7]	[8]
Balance Sheet								
LIABILITIES AND SHAREHOLDERS EQUITY								
Current Liabilities:								
Current maturities of long-term debt	158,934	158,934	173,933	173,933	25,364	25,364	57,878	57,878
Current maturities of long-term debt of subsidiaries nonrecourse	8,424	8,424	7,125	7,125	6,133	6,133	-	-
Short-term debt of subsidiaries nonrecourse	151,921	151,921	130,350	130,350	67,589	67,589	-	-
Commercial paper outstanding	-	-	-	-	-	-	-	-
Accounts payable	128,503	128,503	99,048	99,048	80,427	80,427	101,779	101,779
Accrued expenses	417,997	406,396	413,848	397,642	415,750	395,541	345,602	345,602
Regulatory liabilities	-	-	-	-	-	-	32,236	32,236
Current liabilities of discontinued operations	125,341	125,341	87,321	87,321	598,595	598,595	-	-
Other								
Total current liabilities	\$ 991,120	\$ 979,519	\$ 911,625	\$ 895,419	\$ 1,193,858	\$ 1,173,649	\$ 537,495	\$ 537,495
Long-term Debt	1,400,696	1,400,696	1,396,914	1,396,914	1,609,119	1,609,119	1,704,016	1,704,016
Long-term Debt of Subsidiaries Nonrecourse	37,334	37,334	36,933	36,933	56,670	56,670	-	-
Deferred Income Taxes	-	-	-	-	-	-	173	173
Noncurrent Regulatory Liabilities	-	-	-	-	-	-	23,614	23,614
Other Noncurrent Liabilities	393,735	396,075	369,132	371,472	387,947	390,287	483,113	483,113
Noncurrent Liabilities and Minority Interests of Discontinued Ops	652,322	652,322	632,481	632,481	139,239	139,239	-	-
Total liabilities	\$ 3,475,207	\$ 3,465,946	\$ 3,347,085	\$ 3,333,219	\$ 3,386,833	\$ 3,368,964	\$ 2,748,411	\$ 2,748,411
Minority Interest	14,856	14,856	11,106	11,106	10,333	10,333	10,340	10,340
Preferred Stock, Preference Stock, and Preferred Securities:								
Preferred stock 4.5 % series	2,600	2,600	2,600	2,600	-	-	-	-
Redeemable preferred stock 6.5 % series	1,150	1,150	1,150	1,150	-	-	-	-
Preference stock	-	-	-	-	-	-	-	-
Corporation obligated mandatory redeemable preferred securities of subsidiary trusts	370,250	370,250	370,250	370,250	370,250	370,250	370,250	370,250
Total preferred stock, preference stock and preferred securities	\$ 374,000	\$ 374,000	\$ 374,000	\$ 374,000	\$ 370,250	\$ 370,250	\$ 370,250	\$ 370,250
Shareholders Equity:								
Common stock, par value \$1.75	47,942	47,942	47,942	47,942	47,942	47,942	65,444	65,444
Paid-in capital	240,841	240,841	240,891	240,891	240,936	240,936	304,781	304,781
Treasury stock	(3,542)	(3,542)	(3,500)	(3,500)	(3,451)	(3,451)	(3,560)	(3,560)
Retained earnings	67,848	51,206	67,432	21,093	9,650	(50,733)	(818,604)	(818,604)
Accumulated other comprehensive income (loss)	4,308	4,308	4,569	4,569	3,861	3,861	(4,137)	(4,137)
Total shareholders equity	\$ 357,397	\$ 340,755	\$ 357,334	\$ 310,995	\$ 298,938	\$ 238,555	\$ (456,076)	\$ (456,076)
Total liabilities and shareholders equity	\$ 4,221,460	\$ 4,195,557	\$ 4,089,525	\$ 4,029,320	\$ 4,066,354	\$ 3,988,102	\$ 2,672,925	\$ 2,672,925

[1] NorthWestern Form 10-Q for the period March 31, 2002 filed May 15, 2002.

[2] NorthWestern Form 10-Q/A for the period March 31, 2002 filed April 15, 2003.

[3] NorthWestern Form 10-Q for the period June 30, 2002 filed August 14, 2002.

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Exhibit 5
Summary of NorthWestern's 2002 Original and Restated Financials

USD in Thousands

	1st Quarter 2002		2nd Quarter 2002		3rd Quarter 2002		4th Quarter 2002	FYE 2002
	Original [1]	Restated [2]	Original [3]	Restated [4]	Original [5]	Restated [6]	Calculated [7]	[8]
Cash Flow Statement								
OPERATING ACTIVITIES:								
Net Income	\$ (29,488)	\$ (46,130)	\$ 15,804	\$ (13,893)	\$ (41,317)	\$ (55,361)	\$ (748,558)	\$ (863,942)
Items not affecting cash:								
Depreciation	20,535	20,378	25,424	25,830	24,124	24,349	28,010	98,567
Amortization	7,089	7,089	6,841	6,841	7,981	7,981	7,507	29,418
Loss on discontinued operations	40,000	40,000	5,086	5,086	55,937	55,937	632	101,655
Impairment charges	-	-	-	-	-	-	626,123	626,123
Provision for uncollectible accounts	-	-	-	-	-	-	44,764	44,764
Extraordinary item	13,447	13,447	-	-	-	-	-	13,447
Impairment on note receivable	-	-	-	-	-	-	-	-
Deferred income taxes	291	291	1,637	1,637	(10,900)	(10,900)	44,615	35,643
Minority interests in net losses of consolidated subsidiaries	(14,914)	(14,914)	(8,100)	-	-	-	-	(14,914)
Loss on disposal of other assets	-	-	-	-	-	-	17,783	17,783
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-
Changes in current assets and liabilities, net of acquisitions:								
Restricted Cash	-	-	-	-	-	-	4,288	4,288
Accounts receivable	(93,665)	(64,386)	56,587	81,027	22,924	36,278	(10,928)	41,991
Inventories	27,134	24,855	(5,401)	(10,118)	(10,521)	(10,670)	1,864	5,931
Other current assets	6,310	6,310	3,451	3,451	7,311	7,311	18,747	35,819
Accounts payable	(23,612)	(23,612)	(22,699)	(22,699)	(19,305)	(19,305)	14,922	(50,694)
Accrued expenses	35,974	24,373	(11,728)	(16,333)	2,237	(1,766)	12,075	18,349
Change in net assets of discontinued operations	(4,190)	(4,190)	1,536	1,536	(49,059)	(49,059)	(8,443)	(60,156)
Change in noncurrent assets	9,262	9,262	(4,874)	(4,874)	12,610	(4,388)	-	-
Change in noncurrent liabilities	(15,394)	(15,394)	-	-	1,415	15,394	-	-
Changes in regulatory assets and liabilities	-	-	-	-	-	-	(80,629)	(80,629)
Other, net	(2,577)	891	14,850	15,114	(315)	2,705	11,890	30,600
Cash flows provided by operating activities	\$ (23,798)	\$ (21,730)	\$ 78,414	\$ 72,605	\$ 3,122	\$ (1,494)	\$ (15,338)	\$ 34,043
INVESTMENT ACTIVITIES:								
Property, plant and equipment additions	(10,432)	(12,500)	(11,317)	(5,508)	(18,831)	(14,215)	(83,716)	(115,939)
Proceeds from sale of assets	-	-	22,441	22,441	41	41	11,278	33,760
Sale (purchase) of noncurrent investments and assets, net	(8,013)	(8,013)	(4,628)	(4,628)	11,913	11,913	2,927	2,199
Acquisition and growth expenditures, net of cash received	(482,982)	(482,982)	(76,927)	(76,927)	(25,505)	(25,505)	11,092	(574,322)
Cash flows used in investing activities	\$ (501,427)	\$ (503,495)	\$ (70,431)	\$ (64,622)	\$ (32,382)	\$ (27,766)	\$ (58,419)	\$ (654,302)
FINANCING ACTIVITIES:								
Dividends on common and preferred stock	(8,746)	(8,746)	(8,746)	(8,746)	(8,714)	(8,714)	(11,875)	(38,081)
Minority interest on preferred securities of subsidiaries trusts	(6,225)	(6,225)	(7,474)	(7,474)	(7,474)	(7,474)	(7,437)	(28,610)
Redemption of preferred stock	-	-	-	-	(3,750)	(3,750)	(278)	(4,028)
Proceeds from issuance of common stock and common units	-	-	-	-	-	-	81,031	81,031
Proceeds from exercise of warrants	-	-	-	-	-	-	-	-
Issuance of long term debt	719,118	719,118	-	-	-	-	19,031	738,149
Repayment of long-term debt	(2,007)	(2,007)	(2)	(2)	(156,678)	(156,678)	(154,849)	(313,536)
Line of credit borrowings, net	(132,000)	(132,000)	-	-	231,000	231,000	24,000	123,000
Repayment of discontinued operations debt	-	-	-	-	-	-	(26,059)	(26,059)
Treasury stock activity	-	-	-	-	-	-	121	121
Financing Costs	(36,028)	(36,028)	1,834	1,834	(1,072)	(1,072)	9,453	(25,813)
Issuance of preferred securities of subsidiary trusts	117,750	117,750	-	-	-	-	-	117,750
Subsidiary repurchase of minority interests	(8,697)	(8,697)	(6,963)	(6,963)	(839)	(839)	11,913	(4,586)
Line of credit (repayments) borrowings of subsidiaries, net	(12,951)	(12,951)	-	-	88	88	(334)	(13,197)
Short-term borrowings of subsidiary debt	-	-	-	-	-	-	-	-
Commercial paper (repayments) borrowings, net	-	-	-	-	-	-	-	-
Proceeds from termination of hedge	7,878	7,878	-	-	17,020	17,020	-	24,898
Issuance of nonrecourse subsidiary debt	-	-	179	179	20,000	20,000	(20,179)	-
Repayment of nonrecourse subsidiary debt	(29,507)	(29,507)	(27,612)	(27,612)	(64,824)	(64,824)	121,943	-
Cash flows provided by financing activities	\$ 608,585	\$ 608,585	\$ (48,784)	\$ (48,784)	\$ 24,757	\$ 24,757	\$ 46,481	\$ 631,039
Increase (Decrease) in Cash and Cash Equivalents	83,360	83,360	(40,801)	(40,801)	(4,503)	(4,503)	(27,276)	10,780
Cash and Cash Equivalents, beginning of period [9]	37,158	37,158	120,518	120,518	79,717	79,717	75,214	34,789
Cash and Cash Equivalents, end of period	\$ 120,518	\$ 120,518	\$ 79,717	\$ 79,717	\$ 75,214	\$ 75,214	\$ 47,938	\$ 45,569

[1] NorthWestern Form 10-Q for the period March 31, 2002 filed May 15, 2002.

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[8] NorthWestern Form 10-K for the period December 31, 2002 filed April 15, 2003.

[9] Per the NorthWestern Form 10-Q and 10-Q/A for the period March 31, 2002, the cash and cash equivalents beginning of period are \$37,158. This amount does not agree to the reported amount per the

Exhibit 6
Summary of NorthWestern's 2002 Restated and Revised Quarterly Financials

USD in Thousands

	1st Quarter 2002		2nd Quarter 2002		3rd Quarter 2002	
	Restated [1]	Revised [2]	Restated [3]	Revised [2]	Restated [4]	Revised [2]
Income Statement						
OPERATING REVENUE	\$ 456,127	\$ 456,127	\$ 494,763	\$ 494,763	\$ 501,401	\$ 501,401
Cost of Sales	267,412	267,412	257,023	257,023	257,275	257,275
GROSS MARGIN	188,715	188,715	237,740	237,740	244,126	244,126
Operating Expenses						
Selling, general and administrative	150,467	153,067	188,090	195,390	188,485	211,685
Goodwill and other impairment charges	-	-	-	390,000	-	-
Depreciation	20,378	20,378	25,830	25,830	24,349	24,349
Amortization of goodwill and other intangibles	7,089	7,089	6,841	6,841	7,981	7,981
Restructuring charge	-	-	-	-	-	-
Total Operating Expenses	177,934	180,534	220,761	618,061	220,815	244,015
INCOME (LOSS) FROM CONTINUING OPS	10,781	8,181	16,979	(380,321)	23,311	111
Interest Income/(Expense)	(24,801)	(24,801)	(34,307)	(34,307)	(35,085)	(35,085)
Gain (Loss) on Debt extinguishment	-	-	-	-	-	-
Investment Income and Other	694	694	(2,497)	(2,497)	982	982
INCOME (LOSS) FROM CONTINUING OPS BEFORE INCOME TAXES AND MINORITY INTEREST	(13,326)	(15,926)	(19,825)	(417,125)	(10,792)	(33,992)
Benefit (Provision) for Income Taxes [5]	5,729	6,769	11,018	13,938	11,367	20,647
INCOME (LOSS) FROM CONTINUING OPS BEFORE MINORITY INTERESTS	(7,597)	(9,157)	(8,807)	(403,187)	575	(13,345)
Minority Interest	14,914	14,914	-	-	-	-
INCOME (LOSS) FROM CONTINUING OPERATIONS	7,317	5,757	(8,807)	(403,187)	575	(13,345)
Discontinued Operations, Net of Taxes and Minority Interest	(40,000)	(40,000)	(5,086)	(5,086)	(55,937)	(55,937)
Extraordinary Item	(13,447)	(13,447)	-	-	-	-
NET INCOME	\$ (46,130)	\$ (47,690)	\$ (13,893)	\$ (408,273)	\$ (55,362)	\$ (69,282)
Minority Interests on Preferred Securities of Subsidiary Trusts	(6,225)		(7,474)		(7,474)	
Dividends on Preferred Stock	(48)		(48)		(295)	
EARNINGS (LOSSES) ON COMMON STOCK	\$ (52,403)		\$ (21,415)		\$ (63,131)	

[1] NorthWestern Form 10-Q/A for the period March 31, 2002 filed April 15, 2003.

[2] Per Expert report of Robert W. Berliner, CPA, CFE. If Mr. Berliner did not note any GAAP violations that were not restated by NorthWestern, I assumed that the amounts would have been equal to the restated amounts from that quarter.

[3] NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003.

[4] NorthWestern Form 10-Q/A for the period September 30, 2002 filed April 15, 2003.

[5] Revised includes a tax adjustment for the reserve reversal at an effective tax rate of 40%.

Exhibit 6
Summary of NorthWestern's 2002 Restated and Revised Quarterly Financials

USD in Thousands

	1st Quarter 2002		2nd Quarter 2002		3rd Quarter 2002	
	Restated	Revised	Restated	Revised	Restated	Revised
	[1]	[2]	[3]	[2]	[4]	[2]
Balance Sheet						
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 120,518	\$ 120,518	\$ 79,717	\$ 79,717	\$ 75,214	\$ 75,214
Restricted cash	-	-	-	-	-	-
Accounts receivable, net	365,643	365,643	325,402	325,402	291,929	291,929
Inventories	71,621	71,621	82,054	82,054	92,936	92,936
Regulatory assets	-	-	-	-	-	-
Prepaid energy supply	-	-	-	-	-	-
Other	82,487	184,667	88,131	137,499	81,023	181,109
Assets held for sale	-	-	-	-	-	-
Current assets of discontinued operations	101,140	-	45,408	-	86,846	-
Total current assets	\$ 741,409	\$ 742,449	\$ 620,712	\$ 624,672	\$ 627,948	\$ 641,188
Property, plant, and equipment, net	1,197,060	1,197,060	1,378,591	1,378,591	1,389,408	1,389,408
Goodwill and other intangible assets, net	1,252,906	1,252,906	1,052,355	662,355	1,048,549	658,549
Other intangible assets, net	-	-	-	-	-	-
Other:						
Investments	97,288	-	93,499	-	83,257	-
Regulatory assets	112,653	-	94,433	-	94,125	-
Deferred tax asset	14,334	-	12,825	-	20,570	-
Other assets	97,695	1,004,182	103,444	977,662	81,068	922,197
Noncurrent assets of discontinued operations	682,212	-	673,461	-	643,177	-
Total assets	\$ 4,195,557	\$ 4,196,597	\$ 4,029,320	\$ 3,643,280	\$ 3,988,102	\$ 3,611,342

[1] NorthWestern Form 10-Q/A for the period March 31, 2002 filed April 15, 2003.

[2] Per Expert report of Robert W. Berliner, CPA, CFE. If Mr. Berliner did not note any GAAP violations that were not restated by NorthWestern, I assumed that the amounts would have been equal to the restated amounts from that quarter.

[3] NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003.

[4] NorthWestern Form 10-Q/A for the period September 30, 2002 filed April 15, 2003.

Exhibit 6
Summary of NorthWestern's 2002 Restated and Revised Quarterly Financials

USD in Thousands

	1st Quarter 2002		2nd Quarter 2002		3rd Quarter 2002	
	Restated [1]	Revised [2]	Restated [3]	Revised [2]	Restated [4]	Revised [2]
LIABILITIES AND SHAREHOLDERS EQUITY						
Current Liabilities:						
Current maturities of long-term debt	158,934	158,934	173,933	173,933	25,364	25,364
Current maturities of long-term debt of subsidiaries nonrecourse	8,424	8,424	7,125	7,125	6,133	6,133
Short-term debt of subsidiaries nonrecourse	151,921	151,921	130,350	130,350	67,589	67,589
Commercial paper outstanding	-	-	-	-	-	-
Accounts payable	128,503	-	99,048	-	80,427	-
Accrued expenses	406,396	-	397,642	-	395,541	-
Regulatory liabilities	-	-	-	-	-	-
Current liabilities of discontinued operations	125,341	-	87,321	-	598,595	-
Other		662,840		593,911		1,338,663
Total current liabilities	\$ 979,519	\$ 982,119	\$ 895,419	\$ 905,319	\$ 1,173,649	\$ 1,437,749
Long-term Debt	1,400,696	1,400,696	1,396,914	1,396,914	1,609,119	1,609,119
Long-term Debt of Subsidiaries Nonrecourse	37,334	37,334	36,933	36,933	56,670	56,670
Deferred Income Taxes	-	-	-	-	-	-
Noncurrent Regulatory Liabilities	-	-	-	-	-	-
Other Noncurrent Liabilities	396,075	1,048,397	371,472	1,003,953	390,287	298,526
Noncurrent Liabilities and Minority Interests of Discontinued Ops	652,322	-	632,481	-	139,239	-
Total liabilities	\$ 3,465,946	\$ 3,468,546	\$ 3,333,219	\$ 3,343,119	\$ 3,368,964	\$ 3,402,064
Minority Interest	14,856	14,856	11,106	11,106	10,333	10,333
Preferred Stock, Preference Stock, and Preferred Securities:						
Preferred stock 4.5 % series	2,600	-	2,600	-	-	-
Redeemable preferred stock 6.5 % series	1,150	-	1,150	-	-	-
Preference stock	-	-	-	-	-	-
Corporation obligated mandatory redeemable preferred securities of subsidiary trusts	370,250	-	370,250	-	370,250	-
Total preferred stock, preference stock and preferred securities	\$ 374,000	\$ 374,000	\$ 374,000	\$ 374,000	\$ 370,250	\$ 370,250
Shareholders Equity:						
Common stock, par value \$1.75	47,942	-	47,942	-	47,942	-
Paid-in capital	240,841	-	240,891	-	240,936	-
Treasury stock	(3,542)	-	(3,500)	-	(3,451)	-
Retained earnings	51,206	-	21,093	-	(50,733)	-
Accumulated other comprehensive income (loss)	4,308	-	4,569	-	3,861	-
Total shareholders equity	\$ 340,755	\$ 339,195	\$ 310,995	\$ (84,945)	\$ 238,555	\$ (171,305)
Total liabilities and shareholders equity	\$ 4,195,557	\$ 4,196,597	\$ 4,029,320	\$ 3,643,280	\$ 3,988,102	\$ 3,611,342

[1] NorthWestern Form 10-Q/A for the period March 31, 2002 filed April 15, 2003.

[2] Per Expert report of Robert W. Berliner, CPA, CFE. If Mr. Berliner did not note any GAAP violations that were not restated by NorthWestern, I assumed that the amounts would have been equal to the restated amounts from that quarter.

[3] NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003.

[4] NorthWestern Form 10-Q/A for the period September 30, 2002 filed April 15, 2003.

Exhibit 6

Summary of NorthWestern's 2002 Restated and Revised Quarterly Financials

USD in Thousands

	1st Quarter 2002		2nd Quarter 2002		3rd Quarter 2002	
	Restated [1]	Revised [2]	Restated [3]	Revised [2]	Restated [4]	Revised [2]
Cash Flow Statement						
OPERATING ACTIVITIES:						
Net Income	\$ (46,130)	\$ (46,130)	\$ (13,893)	\$ (13,893)	\$ (55,361)	\$ (55,361)
Items not affecting cash:						
Depreciation	20,378	20,378	25,830	25,830	24,349	24,349
Amortization	7,089	7,089	6,841	6,841	7,981	7,981
Loss on discontinued operations	40,000	40,000	5,086	5,086	55,937	55,937
Impairment charges	-	-	-	-	-	-
Provision for uncollectible accounts	-	-	-	-	-	-
Extraordinary item	13,447	13,447	-	-	-	-
Impairment on note receivable	-	-	-	-	-	-
Deferred income taxes	291	291	1,637	1,637	(10,900)	(10,900)
Minority interests in net losses of consolidated subsidiaries	(14,914)	(14,914)	-	-	-	-
Loss on disposal of other assets	-	-	-	-	-	-
Cumulative effect of change in accounting principle	-	-	-	-	-	-
Changes in current assets and liabilities, net of acquisitions:						
Restricted Cash	-	-	-	-	-	-
Accounts receivable	(64,386)	(64,386)	81,027	81,027	36,278	36,278
Inventories	24,855	24,855	(10,118)	(10,118)	(10,670)	(10,670)
Other current assets	6,310	6,310	3,451	3,451	7,311	7,311
Accounts payable	(23,612)	(23,612)	(22,699)	(22,699)	(19,305)	(19,305)
Accrued expenses	24,373	24,373	(16,333)	(16,333)	(1,766)	(1,766)
Change in net assets of discontinued operations	(4,190)	(4,190)	1,536	1,536	(49,059)	(49,059)
Change in noncurrent assets	9,262	9,262	(4,874)	(4,874)	(4,388)	(4,388)
Change in noncurrent liabilities	(15,394)	(15,394)	-	-	15,394	15,394
Changes in regulatory assets and liabilities	-	-	-	-	-	-
Other, net	891	891	15,114	15,114	2,705	2,705
Cash flows provided by operating activities	\$ (21,730)	\$ (21,730)	\$ 72,605	\$ 72,605	\$ (1,494)	\$ (1,494)
INVESTMENT ACTIVITIES:						
Property, plant and equipment additions	(12,500)	(12,500)	(5,508)	(5,508)	(14,215)	(14,215)
Proceeds from sale of assets	-	-	22,441	22,441	41	41
Sale (purchase) of noncurrent investments and assets, net	(8,013)	(8,013)	(4,628)	(4,628)	11,913	11,913
Acquisition and growth expenditures, net of cash received	(482,982)	(482,982)	(76,927)	(76,927)	(25,505)	(25,505)
Cash flows used in investing activities	\$ (503,495)	\$ (503,495)	\$ (64,622)	\$ (64,622)	\$ (27,766)	\$ (27,766)
FINANCING ACTIVITIES:						
Dividends on common and preferred stock	(8,746)	(8,746)	(8,746)	(8,746)	(8,714)	(8,714)
Minority interest on preferred securities of subsidiaries trusts	(6,225)	(6,225)	(7,474)	(7,474)	(7,474)	(7,474)
Redemption of preferred stock	-	-	-	-	(3,750)	(3,750)
Proceeds from issuance of common stock and common units	-	-	-	-	-	-
Proceeds from exercise of warrants	-	-	-	-	-	-
Issuance of long term debt	719,118	719,118	-	-	-	-
Repayment of long-term debt	(2,007)	(2,007)	(2)	(2)	(156,678)	(156,678)
Line of credit borrowings, net	(132,000)	(132,000)	-	-	231,000	231,000
Repayment of discontinued operations debt	-	-	-	-	-	-
Treasury stock activity	-	-	-	-	-	-
Financing Costs	(36,028)	(36,028)	1,834	1,834	(1,072)	(1,072)
Issuance of preferred securities of subsidiary trusts	117,750	117,750	-	-	-	-
Subsidiary repurchase of minority interests	(8,697)	(8,697)	(6,963)	(6,963)	(839)	(839)
Line of credit (repayments) borrowings of subsidiaries, net	(12,951)	(12,951)	-	-	88	88
Short-term borrowings of subsidiary debt	-	-	-	-	-	-
Commercial paper (repayments) borrowings, net	-	-	-	-	-	-
Proceeds from termination of hedge	7,878	7,878	-	-	17,020	17,020
Issuance of nonrecourse subsidiary debt	-	-	179	179	20,000	20,000
Repayment of nonrecourse subsidiary debt	(29,507)	(29,507)	(27,612)	(27,612)	(64,824)	(64,824)
Cash flows provided by financing activities	\$ 608,585	\$ 608,585	\$ (48,784)	\$ (48,784)	\$ 24,757	\$ 24,757
Increase (Decrease) in Cash and Cash Equivalents	83,360	83,360	(40,801)	(40,801)	(4,503)	(4,503)
Cash and Cash Equivalents, beginning of period	37,158	37,158	120,518	120,518	79,717	79,717
Cash and Cash Equivalents, end of period	\$ 120,518	\$ 120,518	\$ 79,717	\$ 79,717	\$ 75,214	\$ 75,214

[1] NorthWestern Form 10-Q/A for the period March 31, 2002 filed April 15, 2003.

[2] Per Expert report of Robert W. Berliner, CPA, CFE. If Mr. Berliner did not note any GAAP violations that were not restated by NorthWestern, I assumed that the amounts would have been equal to the restated amounts from that quarter.

[3] NorthWestern Form 10-Q/A for the period June 30, 2002 filed April 15, 2003.

[4] NorthWestern Form 10-Q/A for the period September 30, 2002 filed April 15, 2003.

Exhibit 7
Summary of Standard and Poor's Ratings Changes

	1st Quarter 2002					
	Original		Restated		Revised	
	Ratio	Rating	Ratio	Rating	Ratio	Rating
	[1]	[2]	[3]	[4][5]	[6]	[4][5]
EBIT Interest Coverage	(0.20)	BBB+	(0.57)	<BB	(0.57)	<BB
Return on Equity	-3.3%	BBB+	-10.6%	<BB	-10.6%	<BB
Total Debt / Capital	70.2%	BBB+	70.7%	BB	70.7%	BB
Funds From Operations Interest Coverage	0.2	BBB+	(0.1)	<BB	(0.1)	<BB
Funds From Operations / Total Debt	0.7%	BBB+	-0.2%	<BB	-0.3%	<BB

	2nd Quarter 2002					
	Original		Restated		Revised	
	Ratio	Rating	Ratio	Rating	Ratio	Rating
	[7]	[2]	[8]	[4][5]	[6]	[4][5]
EBIT Interest Coverage	0.48	BBB+	(0.22)	<BB	(4.93)	<BB
Return on Equity	10.8%	BBB+	-5.7%	<BB	NM	NM
Total Debt / Capital	70.2%	BBB+	71.5%	BB	85.3%	<BB
Funds From Operations Interest Coverage	1.3	BBB+	0.8	<BB	(4.1)	<BB
Funds From Operations / Total Debt	5.9%	BBB+	3.7%	<BB	-19.4%	<BB

	3rd Quarter 2002					
	Original		Restated		Revised	
	Ratio	Rating	Ratio	Rating	Ratio	Rating
	[9]	[2]	[10]	[4][5]	[6]	[4][5]
EBIT Interest Coverage	0.91	BBB+	0.13	<BB	(3.77)	<BB
Return on Equity	29.3%	BBB+	5.1%	<BB	NM	NM
Total Debt / Capital	72.2%	BBB+	74.0%	BB	89.4%	<BB
Funds From Operations Interest Coverage	2.2	BBB+	1.6	<BB	(2.6)	<BB
Funds From Operations / Total Debt	12.3%	BBB+	9.4%	<BB	-15.5%	<BB

	4th Quarter 2002	
	Calculated	
	Ratio	Rating
	[11]	[4][5]
EBIT Interest Coverage	(4.49)	<BB
Return on Equity	NM	NM
Total Debt / Capital	104.5%	<BB
Funds From Operations Interest Coverage	1.1	<BB
Funds From Operations / Total Debt	8.0%	<BB

Red text indicates that rating is below investment grade.

[1] Last twelve months calculated using the NorthWestern form 10-Q for the period March 31, 2002 filed May 15, 2002, the NorthWestern form 10-Q for the period March 31, 2001 filed May 15, 2001 and the NorthWestern form 10-K for the period December 31, 2002 filed April 15, 2003 (for FYE 2001 results).

[2] Rating is the issuer rating as assigned by S&P as of the end of the stated quarter. During this time period, S&P was relying upon, among other things, future equity financing which caused NorthWestern's rating to be higher than the ratio alone would indicate.

[3] Last twelve months calculated using the NorthWestern form 10-Q/A for the period March 31, 2002 filed April 15, 2003, the NorthWestern form 10-Q for the period March 31, 2001 filed May 15, 2001 and the NorthWestern form 10-K for the period December 31, 2002 filed April 15, 2003 (for FYE 2001 results).

[4] Rating was estimated using the Standard and Poor's Corporate Ratings Criteria Report utility key ratios which had amounts for each rating category. The rating was determined based on the ratio's proximity to the stated utility ratio. (Standard and Poor's Corporate Ratings Criteria Report for 2002, p. 54.)

[5] The Standard & Poor's guidelines for the electric utility only had financial metrics up to rating BB, therefore, if the calculated ratio was below the guideline, the restated ratio would be "<BB" which would put the status to below investment grade. See box below for the Standard & Poor's electric utility financial metrics. (Standard and Poor's Corporate Ratings Criteria Report for 2002, p. 54.)

[6] Last twelve months revised ratios are calculated based on the revised financials found in Expert Report of Robert W. Berliner, CPA, CFE, September 19, 2007, the NorthWestern form 10-Q for the period March 31, 2001 filed May 15, 2001 and the NorthWestern form 10-K for the period December 31, 2002 filed April 15, 2003 (for FYE 2001 results).

[7] Last twelve months calculated using the NorthWestern form 10-Q for the period June 30, 2002 filed August 14, 2002, the NorthWestern form 10-Q for the period June 30, 2001 filed August 14, 2001 and the NorthWestern form 10-K for the period December 31, 2002 filed April 15, 2003 (for FYE 2001 results).

[8] Last twelve months calculated using the NorthWestern form 10-Q/A for the period June 30, 2002 filed April 15, 2003, the NorthWestern form 10-Q for the period June 30, 2001 filed August 14, 2001 and the NorthWestern form 10-K for the period December 31, 2002 filed April 15, 2003 (for FYE 2001 results).

[9] Last twelve months calculated using the NorthWestern form 10-Q for the period September 30, 2002, filed November 14, 2002, the NorthWestern form 10-Q for the period September 30, 2001 filed November 14, 2001 and the NorthWestern form 10-K for the period December 31, 2002 filed April 15, 2003 (for FYE 2001 results).

[10] Last twelve months calculated using the NorthWestern form 10-Q/A for the period September 30, 2002 filed April 15, 2003, filed November 14, 2002, the NorthWestern form 10-Q for the period September 30, 2001 filed November 14, 2001 and the NorthWestern form 10-K for the period December 31, 2002 filed April 15, 2003 (for FYE 2001 results).

[11] The fourth quarter 2002 and FYE 2002 original amounts were calculated using the 2002 10-K filed on April 15, 2003 which includes the restated amounts from Q1, Q2 and Q3 2002. Ratios were calculated using these amounts.

	AA	A	BBB	BB
EBIT Interest Coverage (x)	4.2	3.4	2.8	1.9
Return on Equity (%)	12.3	12.5	10.9	11.4
Total debt/capital (%)	51.7	55.92	58.78	73.3
Funds from operations interest coverage	5.1	4	3.5	2.4
Funds from operations / total debt (%)	35.5	23.76	20.42	12.47